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P.01

TRANSACTION REPORT

MAY-10-90 THU 16:15

DATE	START	SENDER	RX TIME	PAGES	NOTE
MAY-10	16:13	G3	2'10"	3	OK

To: Tom O'Flaherty

from: Sean

re: Dragpoint section # III.

I will call you in a few minutes to review the status of the project

SS

III. DATA PROCESSING BUSINESS SEGMENT VALUATION

According to the data developed in Section II - PRODUCT GROUP REVENUES, the Dta Processing Group accounted for $173 million in revenues for fiscal 1989, or 55% of total revenues and 53% of gross profits Fiscal 1990 is anticipated to generate revenues of $122 million This segment's performance is summarized in the following table

Table 1. Segment Performance: (in $MM)

	1986	1987	1988	1989	1990E	CAGR '86 - '90
Sales	234.4	191.2	194.2	172.9	121.6	(15.1%)
Gross Profits	na	na	na	63.3	na	na
Gross Prof. Margins	na	na	na	37%	na	

Revenue Growth from 1988 to 1989: down 12%
Revenue Growth from 1989 to 1990 down 30%

Notes 1990 figures are derived from annualized six-month revenues. The data made available does not permit an accurate analysis of the historical profitability of the Data Processing group, but it is estimated that hardware margins have been in the 30-40% range and that the "OTHER" category (other dataprocessing related services outside of hardware sales) has been marginally profitable.

The activities of this group are composed of the sourcing, buying, reselling and installation of a variety of third-party and some proprietary hardware, software and communications products Specifically, those are the activities of a Value Added Reseller or Turnkey Systems provider.

A. Proprietary technology.

ArcNet & ArcNetPlus

The ArcNet technology has been licensed to four companies which manufacture all ArcNet chips. Datapoint receives royalties from these manufacturers but their amount was not made available In contrast, when the ArcNetPlus chip will be manufactured, Datapoint should receive royalties from both the chip and board manufacturers.

The total ArcNet chip production has been estimated at 3.1 million as of January 1990, and we estimate that approximately 74%, or 2.3 million chips have been installed in various equipment The remainder, or 800,000 chips are either kept as spare parts by various manufacturers or have been replaced in maintenance activities

The LAN marketplace is widely expected to continue growing at rates ranging from 35% per year for LAN and Internetworking software, to between 26 to 27% for LAN hardware, where database servers are becoming increasingly important As of today, the industry reports that between 15% to 30% of all PCs have been networked

ArcNet Replacement & ArcNetPlus Markets:

Datapoint is of the opinion that there is only a small replacement market for its aging ArcNet chips because the firm intends to promote ArcNetPLus as the key to a variable speed network built on an older but fully compatible technology Therefore Datapoint analyses it in terms of new, or additional sales We however believe that a certain percentage of users will nevertheless decide to upgrade their networks with the new technology. If we assume that there is an active installed base of 2.3 million chips and that the average cost of a LAN board will be in the $500 range:

Replacement Potential	# of Chips	Upgrade Market Size
40%	0 92MM	$460MM
50%	1.15MM	$575MM

Obviously, this analysis is not complete because not all upgrades will be LAN Boards, but also file servers and LAN peripheral equipment which also utilize the ArcNetPlus chip In addition, Datapoint will only receive royalties from these sales. The firm intends to stay away from the sale of pure technology to instead provide integrated, turnkey solutions.

B. Non-Proprietary Technology:

As detailed in the DATAPOINT PRODUCT LINES section, the firm has little proprietary hardware or software technology outside of its communication tools However, the firm has developed a valuable expertise in the sourcing, development, assembling and quality control of hardware solutions. In addition, the firm's 7XXX series, and more specifically the 7850, provides a fairly unique processing power/price machine addressing both the LAN industry's need for reliable servers and database "engines".

C Valuation:

Profitable, publicly-held turnkey companies commanded P/E ratios of 16.6, and P/R ratios of 0 8 as of December 31 1989 Recent acquisitions in the field have commandered P/R ratios as follows:

Table 1 Recent Turnkey Companies Acquisitions, (in $MM)

Buyer	Seller	Price	Revenues	Ratio Price/Revs
Prime	Computervision	435.0	564.0	0.77
Wang	Convergent Legal Systems	11.0	29.1	0.38
ASA Int'l	ASCO	2.0	4.0	0.50

TRANSACTION REPORT

MAY-11-90 FRI 9:55

DATE	START	SENDER	RX TIME	PAGES	NOTE
MAY-11	9:51	G3	3'15"	5	OK

May 11, 1990

To: Tom O'Flaherty

From: Sean Sundaram

Re: Dingpoint Project

FAX: 5 Pages

Here are: (1) Section IV - Telecom SI Valuation

(2) Section VI-B - Euro Channels Valuation

(3) Section VIII - Valuation Summary

Missing is: Section VII - Discounted Cash Flow -

I continue to have problems with correlating the data between the Kidder Peabody and 10K documents ... Kidder did not provide a Proforma Consolidated Balance Sheet and I had to go back to the 10Ks.

Let's Talk . . .

Sean

IV. TELECOMMUNICATIONS SI SEGMENT VALUATION

The Telecommunications SI Group accounted for approximately $50 million of revenues for Fiscal 1989. That year, the group generated hardware revenues of $32.6 million. The remainder, or $17.2 million, was generated through a combination of third-party software and systems integration services. This segment's performance is summarized in the following table:

Table 1. Segment Performance (in $MM)

	1986E	1987E	1988E	1989A	1990E	CAGR '86 - '90
Sales	17.0	30.0	38.0	49.8	49.8	30.8%
Gross Profits	na	na	na	21.6	na	na
Gross Prof. Margins	na	na	na	43%	na	

Revenue Growth from 1988 to 1989: up 31.1%
Revenue Growth from 1989 to 1990: even

Notes: 1990 figures are derived from annualized six-month revenues. Data for 1986 through 1988 have been estimated as described in Section II, PRODUCT GROUP REVENUES. Available data does not permit a reliable analysis of the historical profitability of the Telecommunications SI group. We anticipate that 1990 revenues will actually register a growth of between 15-20% over 1989 results for the group.

A. Activities of the Group:

This group provides an array of services that are a mixture between commercial systems integration and turnkey systems development. They tend to utilize the specialized hardware assembled by the Data Processing group to develop either industry or function specific turnkey solutions. The software utilized is strictly third-party, except for certain LAN communications capabilities. ?

Using this methodology, the group has developed a set of solutions which are currently in high demand in Europe, but, because of differences in geographic market segment levels of maturity, would not be successful in the United States. **Datapoint has developed a definite "arbitrage" expertise in identifying technology gaps between the two continents**, and we anticipate that several of those products will continue to be in high demand over the next few years as the European communications industry continues to deregulate. This segment of the business should be able to sustain growth rates in the 25 to 30% range for the ~~foreseeable future~~. Products of high interest include: ? ? next 5 years

- The ACD86 and other Call Management Center applications. Of particular value are the U.K. installed base of 225 sites and the authorizations currently secured from France, England, Holland, Italy and Belgium, to which will soon be added Spain and Germany.

- Telemarketing Systems built around Davox hardware. This product is also very timely specifically since Europe is starting to use 800 telephone systems across its borders.

- Minx is of lesser interest. First introduced in 1985, the product has 1500 installed terminals, a great many of which are used by ultra-secretive organizations which have bought the equipment, installed it and now maintain it themselves without letting Datapoint know the application. Demand for this product for other applications is not expected to be significant.

- Vista/36 is of little to no value in the long run.

- Other applications such as FORD DARTS are expected to generate upgrade or expansion contracts over the next few years. Competition is high in the field of car dealership networks and other firms are better positioned to provide network (and EDI) solutions.

B. Valuation:

Profitable, publicly-held turnkey companies commanded P/E ratios of 16.6, and P/R ratios of 0.8 as of December 31, 1989. Comparable Professional Services generated P/E ratios of 13.6 and P/R ratios of 0.3. In historical acquisitions, Systems Integrators obtained P/R ratios ranging from 0.6 to above 1.0, depending upon the levels of value-added skills they were able to bring to a client situation.

We believe that this segment of Datapoint's activities shows promise and that the level of skills brought by the group warrant a P/R ratio ranging from 0.7 to 0.8 or a valuation ranging from $34.9 to $39.8 million. This group is key to the development of the European market.

?

B. European Distribution Channels:

Datapoint now generates over 70% of its revenues from European activities (80% from international). The original takeover, ill-conceived spin-off of Intelogic Trace, decrease in sales, decline in asset base, constant reorganizations and resulting negative publicity have virtually paralyzed this company in the U.S. In contrast, the European organization has been able to continue existing by switching its emphasis away from product to solution selling. This has prompted rumors that Datapoint was seriously considering relocating all operations to Europe

out?

Direct Sales:

The firm's international network is composed of 12 rented offices and one owned building. Those house the bulk (80%) of Datapoint's 2100 employees, and 66% of all Sales personnel.

International currently has 86% (160) of all Direct Salespeople, and 79% (93) of all Systems Engineers on Datapoint payroll

Third Party/Distributor Sales:

Datapoint currently has a network of 28 independent distributors which, although they accounted for a low 5% of total 1989 revenues, are well positioned to assist Datapoint in expanding sales to geographic areas where Datapoint does not currently have an office.

Valuation:

The minimum valuation of a distribution channel can be determined as follows

- allocating a "headhunting fee" on each Sales and Technical Sales employee. A proper headhunting fee in the U.S. would be $30,000/qualified employee thus generating a valuation of $ 7.6 million

- utilizing the same "fee" for executive and management personnel, a total of 48 people thus generating a valuation of $1.4 million.

- utilizing a "fee" of $20,000 for all other necessary personnel. We assume that in light of the company's continued layoffs, only a minimum number of people remain, or 394 people. This generates a further valuation of $7.9 million

In the aggregate, we believe that a minimum valuation for Datapoint's European distribution channels and structure would be $16.9 million.

VIII. VALUATION SUMMARY

A. Market Valuation:

Datapoint Corporation stock is currently trading at $3.00/share. There are 10.1 million shares outstanding thus yielding a market value of $30.3 million

B. Business Segment Valuation:

The following business segment valuations are based on available data and do not take into account the firm's debt structure and extraordinary items. Rather, this analysis is meant to establish a base valuation for each major product group.

	Valuation Range	
1. Data Processing	$ 61.2MM	$ 87.1MM
2. Telecommunications SI	$ 34.9MM	$ 39.8MM
3. Maintenance/Field Engineering	$ 52.4MM	$ 56.0MM
Total:	$148.5MM	$182.9MM

C. Discounted Cash Flow:

P.01

TRANSACTION REPORT

MAY-10-90 THU 10:33

DATE	START	SENDER	RX TIME	PAGES	NOTE
MAY-10	10:24	G3	9'29"	14	OK

DATAPOINT CORPORATION

Table of Contents

May 10, 1990

Mr. Thomas O'Flaherty
Input

Dear Tom:

[illegible] of the report. Still in process are the following components (see Table of Contents).

- o Data Processing Bus. Segment Valuation. I am expecting new data on the upcoming Frost & Sullivan report on LANs. I should get it by 1PM.

- o Telecommunications SI Bus. Segment Valuation

- o Discounted Cash Flow Analysis - the numbers concocted by Kidder don't add up, so I have to experiment. I anticipate that this part will be the last to be delivered late today.

Please call if there are any problems or questions. This fax contains 14 pages.

Sincerely,

Sean Sundstrom

I. DATAPOINT PRODUCT LINES

Datapoint currently offers the following three major product lines:

I. Local Area Networks - including ArcNet, Datalan and the yet to be released ArcNetPlus

II. Data Processing Equipment composed of:

a. The Intel-based 7XXX series of Symmetric Multi-Processors and storage devices. This includes the recently released Vista/36 IBM 34/36 knock-off based on the Datapoint 7800 machine.

b. The Datapoint DX processors series, a line of Unix Processors manufactured by Motorola.

c. Workstations, a line of third-party high and low-end workstations for network applications.

III. Turnkey Systems developed with third-party technology, including:

a. MINX, a video conferencing system embedding technology licensed from Picturetel.

b. Telemarketing systems based on Davox equipment and developed and marketed in Europe.

c. ACD86, an Automating Call Distribution system based on Coffman Systems or CCMS16 (Teknekron) software. This product is available in Europe.

d. Vista/36, an IBM System 34/36 knock-off.

e. Vista/Image, a Wang-like digital imaging and storage system.

I. LOCAL AREA NETWORKS

1. ArcNet:

A. 2.5M bps ArcNet:

Initially introduced in 1977 as a proprietary local area networking technology, ArcNet (Attached Resource Computer) endorsed an open architecture some three years later. It uses a token passing protocol and a combination of hybrid interface components and dedicated communications controllers. It is distinguished by its low initial and maintenance costs and high reliability. Its key advantages include easy installation, flexible topology, few interconnect rules, almost no restrictions, easy troubleshooting and compatibility with popular network operating systems software products. Over the years, these characteristics have earned ArcNet a loyal base of cost conscious users.

Datapoint helped spawn the LAN industry when, in the early 1980s, it licensed its 2.5M-bps ArcNet technology to multiple third-parties. As of early 1989, Datapoint's 2.5M-bps ArcNet product boasted approximately 16.3% of the total local area network marketplace, about one-third of the installed nodes, and approximately 25% of all NEW installations.

Available data suggests that, as of mid 1989, there were more than 2 million installed ArcNet devices worldwide, and, as of January 1990, some 3.1 million ArcNet chips have been manufactured (but not necessarily installed). Datapoint's actual market share of installed networks is situated around the five percent level (or 10,000 networks), and most of Datapoint's installations are sites connecting between 300 to 600 PCs covered by initial contracts ranging in value from $200,000 to $1 million. Datapoint has directly licensed its ArcNet technology to NCR, Standard Microsystems Corp (SMC), and, in the last four months to UMC (Taiwan) and Silicon (Israel). Most industry analysts consider that Datapoint is no longer an essential component for the survival of this particular market segment since the technology is available from multiple other sources.

Today, there are over 100 companies (50 in the U.S. alone) which purchase ArcNet chips to manufacture, sell and install a wide variety of 2.5M-bps ArcNet products on an international scale. These not only include companies such as NCR and Standard Microsystems corp. (the two largests), but also a second level of companies such as Acer Technologies, DSC Communications Corp, InMAC's Datacom division, Quam Corp, and Tiara, amongst many others. ArcNet boards now range in price from $50 to $300, depending upon the reseller.

Datapoint receives royalties from the chip manufacturers, but its influence, market share and survival really depend on the ability of its R&D department to successfully bring out the next generation of products on a timely basis. However, as Datapoint's financial situation continued to deteriorate, management gradually cut back on critical R&D funding thus slowing down new product development. Datapoint's R&D budget has been drastically reduced from a high of $45 million in 1985, to less than $10 million today. It should however be noted that a significant percentage of this reduction is due to the fact that Datapoint stopped developing its own proprietary hardware and peripherals.

Users have been awaiting the release of ArcNet's new generation for some time. In the meantime, Datapoint has only released several products which have had no material impact on the firm's revenues:

- o Datalan - released in April 1989, this starter LAN system is targeted at small businesses and corporate departments. It is compatible with MS DOS, supports NetBios, SNA 3270 gateways and bridges to other LANs. Pricing starts at $595 for a four user version and competition is extremely fierce in this segment.

- o Datalan XA (Extended Architecture) - released in July 1989, this software package can support six CPUs and 12 network interface cards on one server. Pricing starts at $3000 for a 16 user license.

As a result, ArcNet's market share continued to erode as competing topologies (Ethernet and Token Ring) provided increasingly faster networks

B. 20M bps ArcNetPlus:

In September 1989, Datapoint finally announced ArcNetPlus, a 20M-bps version of ArcNet that is interoperable with the older 2.5M bps version. In other words, and this is an important factor, this interoperability would enable the firm to provide a network environment with multiple speeds to accommodate different levels of users. Thus, the firm is not necessarily looking at a replacement market, but more one of add-on capabilities. We estimate that Datapoint has already spent in excess of $15 million in R&D funding to develop ArcNetPlus and that an additional $ 3 to 5 million will be necessary to complete product development and introduction.

The new generation boasts six to eight times the performance of ArcNet and operates over coaxial, unshielded twisted-pair and fiber-optic cables. ArcNetPlus' other announced enhancements include a maximum-node limit on a single LAN of 2,047, support for a 48-bit address format and for the 32-bit address format in the IP portion of TCP/IP as well as support for the Media Access Control-layer interface dictated by IEEE 802.2 Logical Link Control Standard.

In October 1989, Datapoint announced that it had granted licenses to Standard Microsystems (SMC) and NCR to jointly develop and then market the ArcNetPlus chip set to other board and systems OEMs. Datapoint, in a major shift from past policies, has retained its proprietary rights to the new technology, and will use chips developed by NCR and SMC in its own LAN products or turnkey/systems integration solutions. Datapoint has applied for five patents on this technology. Apparently, the original ArcNet 2.5M-bps had not been well protected.

For this new product, and this is a significant difference, Datapoint is attempting to position ArcNetPlus as a tool for manufacturers and systems integrators to use for interconnections in client/server architectures and for high speed and graphics peripherals. **Datapoint is repositioning this product away from its traditional role as a simple interprocessor bus.**

Datapoint announced that by year-end 1989, it would make available an ArcNetPlus development kit for $12,000. Further delays apparently caused by financial pressures and technical difficulties retarded the introduction of the kit until early March 1990 when the firm announced its availability and the fact that it had pre-sold 10 development kits out of a total batch of 43. In addition, the firm is now forecasting that the final consumer-ready product will not be ready for shipping until the middle of the first quarter of 1991, or a further delay of three to five months. Pricing is not yet available, but should be situated within 80% of a 16Mbyte Token Ring or Ethernet cards, or between $400 to $600. Datapoint anticipates that the largest component of its future revenues will be derived from the sale of add-on components such as Network Interface Cards ($10,000) and memory cards ($18,000).

Since March 1990, there have been rumors that the development kit was either not available or incomplete. Industry observers who had witnessed

demonstrations at such LAN shows as the one recently held in San Francisco, have pointed out basic flaws in file transfer capabilities, and those who had prepaid for the development kits had not received anything from Datapoint until very recently . As of the beginning of May 1990, the delivery of two development kits have been confirmed, and Datapoint insists that there has never been any problems.

This further delay, and the semi-public announcement that Datapoint, the sole-owner of the next generation of ArcNet, had hired Kidder Peabody to "evaluate its options" has clearly worried several industry players and has prompted them to take action as follows:

- Both NCR **Microelectronics** and **Standard Microsystems** have either considered or are proposing purchasing the rights to ArcNetPlus Should Datapoint fold, NCR has a sufficient business base to actually withstand gradually loosing its ArcNetPlus business, but SMC, a $77 million company which recently returned to profitability, is committed to ArcNet technology as it already is the leading manufacturer of ArcNet coax, twisted pair and fiber optic systems products SMC needs access to the new technology for long term survival.

- **Puredata Ltd.**, an Ontario, $50 million high tech company formed Puredata Research USA at the end of March 1990 to develop ArcNetPlus products, and effectively compete with Datapoint. The firm hired William Cox, a principal architect of ArcNetPlus, Robert Harris, a former director of development at Datapoint, and Joseph Lorson, a former Datapoint engineer to spearhead their project. Datapoint has Mr Cox sign a "rigorous" non compete and does not expect Puredata to become a competitor in ArcNetPlus chips technology. Rather, Datapoint anticipates that Puredata will concentrate its efforts in the development of ArcNetPlus compatible hubs.

- The original ArcNetPlus development team has recently left Datapoint to form **Child Systems**, a consulting firm which now has NCR and Datapoint as primary clients. Datapoint still has a team of 10 engineers working on the development of ArcNetPlus.

- The original developer of ArcNet, John Murphy, is now with **Performance Technology**, an ArcNet systems developer.

ArcNet and ArcNetPlus should be able to survive the potential demise of Datapoint An argument could even be developed that an expeditious demise of Datapoint might actually make the technology come to market faster Other industry observers have pointed out that ArcNetPlus technology might simply not be necessary to speed up the existing ArcNet installed base. A LAN board developed by Thomas-Conrad (the TC3045) can apparently speed up an ArcNet network to 100M-bps without however having to be backward-compatible The issue of backward-compatibility is said to be the hardest engineering problem to solve for Datapoint There are numerous other companies which have developed notable expertise in ArcNet technology.

II. PRODUCT GROUP REVENUES

For the sake of this analysis, Datapoint and Kidder Peabody have reorganized the company's product lines under three product groups as follows:

- **Data Processing**, which includes ArcNet, ArcNetPlus, the 7XXX and DX hardware series, as well as all proprietary and third-party connectivity and communications software products, and image processing tools.

- **Telecommunications SI**, which is comprised of Datapoint's turnkey activities in the call management (ACDR6), telemarketing, and voice/video arenas. Most of these activities are conducted in Europe

- **Field Engineering**, which includes all product and software maintenance activities in Europe, Canada, Australia and New Zealand.

The company's 1989 and extrapolated 1990 revenues are summarized in the following two tables:

	Fiscal 1989 (in $MM)		
	Hardware	Other	Total
Data Processing	$ 153.4	19.5	172.9
Telecommunications SI	32.6	17.2	49.8
Field Services		89.8	89.8
Total	186.0	126.5	312.5

	Fiscal 1990 (in $MM) Projected From First Six Months		
	Hardware	Other	Total
Data Processing	$ 104.0	17.6	121.6
Telecommunications SI	35.0	14.8	49.8
Field Services		83.8	83.8
Total	139.0	116.2	255.2

The data for Fiscal 1990 was projected from data available for the first six months of the year. It is assumed that revenues for the next six months will be at a similar level than the preceding period.

II. DATA PROCESSING EQUIPMENT

a. Symmetric Multi Processors and Storage Devices

Datapoint "manufactures" (i.e., assembles) its core 7XXX Symmetric Multi Processors (RMS/XA) from third-party components. Manufacturing is solely conducted at the San Antonio facility. Finished products are then shipped directly to client sites throughout the world.

The firm's Symmetric product line is mostly utilized as LAN network servers, or as shared logic minicomputers. The firm is now emphasizing its RMS/XA systems to the detriment of its traditional RMS and DOS machines which stopped shipping in late 1989. The newer models, which include the 7850, either incorporate several 80386 or 80486 CPUs and intelligent I/O adapters, with dual resource interface modules to serve multiple ArcNets. In addition, through Datapoint's licensed version of Oracle, the later models can serve as a database engine. Pricing range from $30,000 to $45,000, depending on options. There are about 1200 installed 7XXX machines in Europe alone (100 each in the U.K. and France), with 40 of the newer 7850 systems sold in the last four months in the U.S. due to an aggressive promotional campaign. Sites featuring the discontinued RMS and DOS machines have been actively marketed for replacement sales.

Datapoint anticipates that its latest 7850 hardware box with dual Intelboards will be the star of the 7XXX product line and ultimately account for a significant portion of this segment's revenues (30-40%). Although non proprietary, the dual processor nature of Datapoint's design is fairly unique in the LAN industry. In addition, the firm has accumulated a significant level of sourcing, assembly and quality control expertise which together have generated reliable, cost competitive hardware. Datapoint considers this expertise to be one of the key ingredients of its new Systems Integration orientation.

2. Datapoint DX UNIX Processors:

Until June 1989, Datapoint had OEM agreements with Norsk Computer Industries A/S of Norway, and with Charles River Data Systems (Datapoint is also a $ 4 million investor in the latter company) to provide it with complementary lines of Unix-based hardware. Datapoint cancelled its agreement with Norsk in late June partially because Norsk's parent, Scanvest Ring A/S, had become controlled by Olivetti.

Subsequently, Datapoint signed an OEM agreement with Motorola which now provides Datapoint with its new DX family based on the 68030 processor. The Motorola machines are VME-bus based, Unix System V-compliant, and have "extensive networking and connectivity options" at prices ranging from $8,495 to $36,495. The DX family is designed to support from four to 64 users. There is no data on the size of the Motorola installed base, but its is estimated to be less than 100 machines.

Charles River Data Systems provides Datapoint with the 2400 Series data entry machines, which are distributed in the U.K. by Standard Platforms, Ltd.

3. Workstations:

Datapoint also sells a line of third party (Televideo) diskless workstations supporting both MS DOS and Datapoint's Resource Management Systems/Extended Architecture operating systems at prices ranging from $830 to $5,995.

III. TURNKEY SYSTEMS

In the last several years, Datapoint has begun to develop and offer integrated turnkey systems in an attempt to reposition the company as a "Systems Integrator", essentially a provider of all-inclusive solutions. Interestingly, the systems showing the most promise (Telemarketing and ACD86) have been developed in and are only sold to clients in Europe. The turnkey product line is composed of:

- **Minx** - Introduced in 1985, this is Datapoint's Multimedia Information Network Exchange, a visual communications system that enables real-time two-way video and audio communication between sites over a video link or a telephone line. Imbedding technology originally licensed from Picturetel, the system is currently in use by the judicial system in the U.S. and several other countries for remote video arraignments, educational purposes and others. Other key accounts include the CIA, the Pentagon, and the Italian Army. There are 1500 Minx stations installed throughout the world. Datapoint has developed a proprietary cluster server that manages the system's interface to a broadband LAN. An average system now costs approximately $30,000. Picturetel has, in the meantime, continued to develop its own system which has been available in the U.S. for some time and was launched in the U.K. in August 1989.

- **Telemarketing systems** - In January 1990, Datapoint signed an OEM agreement with Billerica, MA-based communications systems supplier Davox Corp for a three-year exclusive representation in France and England for that company's line of workstations, data controller and autodial systems that are used in Datapoint's telemarketing systems. There are several installations in Europe and Datapoint has high expectations for that system.

- ACD86, an Automatic Call Distribution (ACD) system composed of telemarketing software from California-based Coffman systems running on dual Ultimate 7200 Pick system from Bull HN Information Systems. This custom system has only been sold in Europe, where, according to Datapoint data it has captured 40% of the ACD marketplace in the U.K.. Datapoint has an installed base of 225 ACD customers in Europe. Some 70 percent of U.K. revenues are derived from the selling of Call Management Centers. Datapoint has high expectations for its call management products, specifically since the firm has had to secure authorization from each European government's communications authority to sell these systems. Thus far, the firm has obtained authorizations for France, the U.K., Holland, Italy and Belgium. Authorizations are being sought for Spain and Germany. This approval process is a major barrier to entry and their granting constitutes a significant accomplishment. It should be noted that this product would probably not fare well in the U.S. where the ACD market is in a much more mature stage.

- **Vista/36.** In March 1990, Datapoint utilized its base 7800 model to exploit an opportunity it perceived in the IBM 34/36 area. This $133,000 product (includes 5 years of maintenance) utilizes California Software's Baby 36 software product and the combination apparently offers performance improvements of up to 8.7 times for existing IBM 34/36 applications, thus retarding an expensive and sometimes difficult conversion to an AS/400.

Datapoint has targeted Europe (France and England) and the U.S. as substantial geographic markets for this new product. For instance, there are over 6,000 potential sites in the U.K. and 20,000 in France. The product is now available, and two to three sales have been recorded.

Most industry analysts qualify Datapoint's latest product as a purely opportunistic attempt to capitalize on a temporary technology gap in the market. In any case, this product is bound to have a fairly short life cycle simply due to the decreasing number of IBM 34/36 installations. It is not expected to generate significant levels of revenues for the firm, but should recoup its development cost.

- Vista/Image - a digital image storage and retrieval system that is mostly sold to distributors. Sales of this system have been disappointing.

In recent years, Datapoint has migrated from a proprietary technology-driven company to one utilizing a compendium of core proprietary and third party technology to develop turnkey solutions for a wide variety of clients. In so doing, the firm has elected to but not always succeeded in standardizing its products and services on widely accepted industry standards to minimize development and maintenance costs. For instance, both France and the U.K. still use different software and sometimes hardware products for its ACD86 product line.

In addition, the firm has singled-out several specific industries (such as financial services) for expansion. The recent selection of these industries appears to have been driven by the size of its pre-existing customer base in Europe, and more particularly in the U.K. where the firm's leading European office is located, instead of a carefully developed strategic planning effort.

Europe is, and will continue to be a very major contributor to Datapoint's continued existence. The firm has developed an excellent distribution channels for its products an services, and its maintenance operation, barring a downturn in new sales, should continue to provide it with a large portion of its gross profits.

V. MAINTENANCE BUSINESS SEGMENT VALUATION

In 1985, Datapoint Management spun off Intelogic Trace, Datapoint's U.S. maintenance subsidiary into a separate, publicly-held entity. As of today, Datapoint's maintenance business is comprised of 484 field engineers distributed between France, the U.K., Holland, Germany, Belgium, Spain, Italy, Sweden, Switzerland, Australia, Canada, and New Zealand. All U.S. maintenance activities are carried out by Intelogic Trace and are not taken into account in this analysis. The following table summarizes this segment's recent performance:

Table 1. Segment Performance: (in $MM)

	1986	1987	1988	1989	1990E	CAGR '86 - '90
Sales	75.7	90.9	98.6	89.8	84.0	2.6%
Gross Profits	22.9	37.7	38.9	34.1	33.6	10.1%
Gross Prof. Margins	30%	41%	39%	38%	40%	

Revenue Growth from 1988 to 1989: down 10%
Revenue Growth from 1989 to 1990: down 7%

Notes: 1990 figures are annualized six-month revenues and gross profits

Table 2. Potential New Maintenance Business: (Hardware & Software)

(in $MM)

	1986	1987	1988	1989	1990E
Hardware & Software Revenues	196.7	180.6	192.5	186.0	138.8
80% Maintenance Rule (delayed 1 year)		157.4	144.5	154.0	148.8
Potential New Maintenance Revenues		18.8	17.3	18.4	17.9
Actual Incremental Maintenance Revenues		15.2	7.7	(8.8)	(5.8)
Delta/Shortfall		(3.6)	(9.6)	(27.2)	(23.7)

Notes:

- The Actual Incremental Maintenance Revenues are calculated from Table 1.
- The 80% rule utilizes Datapoint management belief that 80% of new business generated since 1986 also contracts for maintenance agreements for their hardware and software products at an average cost of 12% of the original system's price per year.
- Maintenance revenues are delayed one year because the first year is usually included "free of charge" in the purchase of a new system.

The preceeding analysis indicates that maintenance revenues are eroding at a faster rate than they are being replaced by new contracts; the shortfall reached $27 million in 1989. Probable causes for this erosion include a downturn in market conditions, the replacement sale of old hardware systems and the introduction of new systems (lag of one year in generating maintenance income), and, perhaps more simply, the negative impact that Datapoint's current situation can have on potential clients.

Table 3 Recent Maintenance Companies Acquisitions: (in $MM)

Buyer	Seller	Price	Revenues	Ratio Price/Revs
BellSouth Corp.	DataServ	96.6	139.0	0.69
Genicom Corp	Momentum Tech	45.0	82.0	0.55
ITT ServCom	Bell & Howell	30.0	38.0	0.79
Nat'l Computer Systems	Adage	14.2	13.8	1.03
Bell Atlantic Sorbus	Elect. Servc. Specialists	14.0	18.0	0.78

Average P/R ratio: 0.77
Median P/R ratio: 0.78

According to data generated by the company, this segment accounted for approximately 20% of total 1989 revenues, and 29% of gross profits. No other detailed data being available, we have limited the analysis to the application of a Price/Revenue ratio and further suggest discount rates of 15 to 20% to counterbalance the unit's declining revenues. The results are as follows:

Table 4. Potential Valuation Range: (in $MM)

A. Discount Rate of 15%

		1989	1990
Average P/R	0.77	58.7	55.0
Median P/R	0.78	59.5	55.7

B. Discount Rate of 20%

		1989	1990
Average P/R	0.77	55.3	51.7
Median P/R	0.78	56.0	52.4

The valuation of this segment of Datapoint's business therefore ranges between $52 and $60 million depending on the discount rate applied and revenues anticipated for 1990.

VI. OTHER COMPONENTS OF VALUATION

A. Real Estate Valuation

Datapoint currently owns several buildings and tracks of land in San Antonio, Texas The firm also owns a five story building in Gouda, Holland, for which a valuation was not determined All other Datapoint offices are either rented or leased.

San Antonio is at the heart of one of the most depressed commercial real estate markets in the United States Even though all Datapoint's holding are situated in prime development areas, the current situation and glut of properties offered for sale would make it extremely difficult to sell According to various real estate analysts, this situation is not likely to change in the near term. Datapoint has recently hired Caldwell Banker to attempt to sell the DeZavala Track The offering document was distributed to potential investors in the last two weeks.

The following table describes the various properties and provides a tentative valuation range

Property	Size	Valuation Range
1. Office Buildings:		
8400 Datapoint Drive	68,724 square feet	$1 4 to $1.7 million
8410 Datapoint Drive	110,320 square feet	$2 2 to $2 8 million
8550 Datapoint Drive	34,624 square feet	$0.7 to $0.9 million
2. Warehouses:		
9725 Datapoint Drive	206,000 square feet	$2.5 million
3. Undeveloped Land:		
DeZavala Tract	148.15 acres	$11 3 to $14 2 million
Parking Lot	3.77 acres	$ 0.3 to $ 0.4 million
Total	7,037,496 sq feet	$18 4 to $22.5 million

Prime, recently built and occupied office buildings sold in the range of $30 per square foot several years ago Today, the same property sells for between $20/sq foot if empty, and $25/sq foot if occupied, if it sells at all Datapoint's office buildings are an average of 19 years old.

Modern warehouses and other specialized buildings sell in the $11/sq foot range

Prime vacant land situated on the North side San Antonio, and having frontage on Route 10, would sell in the range of $1.75 to $2.20/sq. foot, down from $3.00/sq foot several years ago Many such properties are now being foreclosed on or being sold at auction generating between $0.50 to $1 00/sq foot There are few buyers.

It should be noted that the Caldwell Banker document is seeking a price of $17 5 million, or $2.71/sq foot for the DeZavala property It is the collective opinion of several real estate investors that this price is not achievable.

We believe that the Dutch office building (52,000 sq feet), which is situated near Utrecht in Holland, would not materially affect the above valuation.

Under the present circumstances, there is less than a 30% chance of disposing of any of Datapoint's real estate holdings at realistic prices

DATAPOINT PRODUCT LINES

Datapoint currently offers the following three major product lines:

I. Local Area Networks - including ArcNet, Datalan and the yet to be released ArcNetPlus.

II. Data Processing Equipment composed of:

a. The Intel-based 7XXX series of Symmetric Multi-Processors and storage devices. This includes the recently released Vista/36 IBM 34/36 knock-off based on the Datapoint 7800 machine.

b. The Datapoint DX processors series, a line of Unix Processors manufactured by Motorola.

c. Workstations, a line of third-party high and low-end workstations for network applications.

III. Turnkey Systems developed with third-party technology, including:

a. MINX, a video conferencing system embedding technology licensed from Picturetel.

b. Telemarketing systems based on Davox equipment and developed and marketed in Europe

c. ACD86, an Automating Call Distribution system based on Coffman Systems or CCMS16 (Teknekron) software. This product is mostly available in Europe.

d. Vista/36, an IBM System 34/36 knock-off

e. Vista/Image, a Wang-like digital imaging and storage system.

I. LOCAL AREA NETWORKS

1. ArcNet:

A. 2.5M-bps ArcNet:

Initially introduced in 1977 as a proprietary local area networking technology, ArcNet (Attached Resource Computer) endorsed an open architecture some three years later. It uses a token-passing protocol and a combination of hybrid interface components and dedicated communications controllers. It is distinguished by its low initial and maintenance costs, and high reliability. Its key advantages include easy installation, flexible topology, few interconnect rules, almost no restrictions, easy troubleshooting and compatibility with popular network operating systems software products. Over the years, these characteristics have earned ArcNet a loyal customer base with cost conscious users.

It can be said that Datapoint helped spawn the LAN industry when, in the early 1980s, it licensed its 2.5M-bps ArcNet technology to multiple third-parties. As of early 1989, Datapoint's 2.5M-bps ArcNet product boasted approximately 16.3% of the total local area network marketplace, about one-third of the installed nodes, and approximately 25% of all NEW installations. Available data suggests that there are more than 2 million installed ArcNet devices worldwide, and, as of the beginning of 1990, some 3.1 million ArcNet chips manufactured. Datapoint's actual market share of installed networks is situated around the five percent level (or 10,000 ~~10,000~~ 10,000 networks). Datapoint has directly licensed its ArcNet technology to NCT, SMC, and, in the last four months to UMC (Taiwan) and Silicon (Israel). Many analysts consider that the firm is no longer an essential component for the survival of this particular market segment.

Today, there are over 100 companies (50 in the U.S. alone) which manufacture, sell and install a wide variety of 2.5M-bps ArcNet products on an international scale. These include companies such as NCR and Standard Microsystems corp. (the two largests), as well as Acer Technologies, DSC Communications Corp, InMAc's Datacom division, Quam Corp, and Tiara, amongst others.

Datapoint receives royalties from these various companies, but its influence, market share and survival really depend on the ability of its R&D department to successfully bring out the next generation of products on a timely basis. However, as Datapoint's financial situation continued to deteriorate, management gradually cut back on critical R&D funding thus jeopardizing new product development.

Users have been awaiting the release of ArcNet's new generation for some time. In the meantime, Datapoint has only released several products which have had no material impact on the firm's revenues:

- Datalan - released in April 1989, this starter LAN system is targeted at small businesses and corporate departments. It is compatible with MS DOS, supports NetBios, SNA 3270 gateways and bridges to other LANs. Pricing starts at $595 for a four user version and competition is extremely fierce in this segment.

- Datalan XA (Extended Architecture) - released in July 1989, this software package can support six CPUs and 12 network interface cards on one server. Pricing starts at $3000 for a 16 user license.

As a result, ArcNet's market share continued to erode as competing topologies (Ethernet and Token Ring) provided increasingly faster networks.

Positioning for sale at

B. 20M-bps ArcNetPlus:

In September 1989, Datapoint finally introduced ArcNetPlus, a 20 M-bps version of ArcNet that is interoperable with the older 2.5M-bps version. The new generation boasts eight times the performance of ArcNet and operates over coaxial, unshielded twisted-pair and fiber-optic cables. ArcNetPlus' other announced enhancements include a maximum-node limit on a single LAN of 2,047, support for a 48-bit address format and for the 32-bit address format in the IP portion of TCP/IP as well as support for the Media Access Control-layer interface dictated by IEEE 802.2 Logical Link Control Standard.

[illegible] that Datapoint brings speed to LAN communications. [illegible] [illegible] the success of its [illegible]

[illegible] others.

Datapoint [illegible] company [illegible] Management [illegible]

[illegible]

- o Datapoint [illegible]
- o [illegible]

As a result, [illegible] market share continues to [illegible] and Tymnet [illegible]

4. 3Com-type [illegible]

In November, 1983, [illegible] introduced [illegible]

In October 1989, announced that it had granted licenses to Standard Microsystems (SMC) and NCR to jointly develop and then market the ArcNetPlus chip sets to other board and systems OEMs. Datapoint, in a major shift from past policies, **has retained its proprietary rights to the new technology,** ~~and~~ will use chips developed by NCR and SMC in its LAN products. Datapoint has applied for five patents on this technology.

Datapoint's

At the same time, Datapoint announced that by year-end, it would make available an ArcNetPlus development kit for $12,000. Further delays apparently caused by financial pressures and technical difficulties retarded the introduction of the kit until March 1990 and the firm is now forecasting that the final consumer-ready product will not be ready for shipping until the first quarter of 1991. However, there has been an unconfirmed rumor that the development kit was either not available or incomplete. Industry observers who have witnessed demonstrations have pointed out basic flaws in file transfer capabilities, and several developers who actually prepaid for the development kit have yet to receive anything from Datapoint...As of today, two development kits have been delivered...

This delay, and the semi-public announcement that Datapoint, the sole-owner of the next generation of ArcNet, was "on the block" has clearly worried several industry players and has prompted them to take action as follows:

- Both **NCR Microelectronics** and **Standard Microsystems** have either considered or are proposing purchasing the rights to ArcNetPlus. Should Datapoint fold, NCR has a sufficient business base to actually withstand loosing its ArcNetPlus business, but SMC, a $77 million company which recently returned to profitability, is committed to ArcNet technology as it already is the leading manufacturer of ArcNet coax, twisted pair and fiber optic systems products. SMC needs access to the new technology for long term survival.

- **Puredata Ltd.**, an Ontario, $50 million high tech company formed Puredata Research USA at the end of March 1990 to develop ArcNetPlus products, and effectively compete with Datapoint. The firm hired William Cox, a principal architect of ArNetPlus, Robert Harris, a former director of development at Datapoint, and Joseph Lorson, a former Datapoint engineer to spearhead their project. Datapoint has however had Bill Cox signed a "rigorous non-compete" and does not expect Puredata to become a competitor in ArcNetPlus chips technology. Rather, Datapoint anticipates that Puredata will concentrate its efforts in the development of ArcNetPlus compatible hubs.

- The original ArcNetPlus development team has recently left Datapoint to form **Child Systems**, a consulting firm which now has NCR and Datapoint as primary clients. Datapoint still has a team of 10 engineers working on the development of ArcNetPlus.

be able to

~~Most~~ industry ~~analysts agree that~~ ArcNet and ArcNetPlus should survive the potential demise of Datapoint. Some even put forth the argument that an expeditious demise of Datapoint might actually make the technology come to market faster. Others have pointed out that ArcNetPlus technology might

[illegible]

[illegible] past policies, has retained its proprietary rights to the new technology [illegible]

[illegible]

[illegible]

- [illegible] NCR Microelectronics and Standard Microsystems [illegible]

- Parodata Ltd [illegible]

- [illegible] CHILD Systems, [illegible]

[illegible]

simply not be necessary to speed up the existing ArcNet installed base. A LAN board developed by Thomas-Conrad (the TC3045) can apparently speed up an ArcNet network to 100M-bps without however having to be backward-compatible. The issue of backward-compatibility is said to be the hardest engineering problem to solve for Datapoint. There are numerous other companies which have developed tremendous expertise in ArcNet technology.

II. DATA PROCESSING EQUIPMENT

a. Symmetric Multi Processors and Storage Devices

Datapoint "manufactures" (i.e., assembles) its core 7XXX Symmetric Multi-Processors (RMS/XA) from ~~a pre-selected array of~~ third-party components. Manufacturing is solely conducted at the San Antonio facility. Finished products are then shipped directly to client sites throughout the world.

The firm's Symmetric product line is mostly utilized as LAN network servers, or as shared logic minicomputers. The firm is now emphasizing its RMS/XA systems to the detriment of its traditional RMS and DOS machines which stopped shipping in late 1989. The newer models which include the 7850, either incorporate several 80386 or 80486 CPUs and intelligent I/O adapters, with dual resource interface modules to serve multiple ArcNets. In addition, through Datapoint's licensed version of Oracle, the later models can serve as a database engine. Pricing range from $30,000 to $45,000, depending on options. There are about 1200 such machines installed in Europe ~~alone~~, with 40 systems sold in the last four months in the U.S.

2. Datapoint DX UNIX Processors:

Until June 1989, Datapoint had OEM agreements with Norsk Computer Industries A/S of Norway, and with Charles River Data Systems (Datapoint is also an investor in the latter company) to provide it with complementary lines of Unix-based hardware. Datapoint cancelled its agreement with Norsk in late June partially because Norsk's parent, Scanvest Ring A/S, had become controlled by Olivetti.

Subsequently, Datapoint signed an OEM agreement with Motorola which now provides Datapoint with a new DX family based on the 68030 processor, are VME-bus based, Unix System V-compliant, and have "extensive networking and connectivity options" at prices ranging from $8495 to $36,495. The DX family is designed to support from four to 64 users.

Charles River Data Systems provides Datapoint with the 2400 Series data entry machines, which are distributed in the U.K. by Standard Platforms, Ltd.

Sales = ??

1. DATA PROCESSING EQUIPMENT

a. Symmetric Multi Processors and Storage Devices

[illegible]

[illegible]

b. Storagepoint DX Data processors

[illegible]

[illegible]

[illegible]

3. Workstations:

Datapoint also sells a line of third party (Televideo?) diskless workstations supporting both MS DOS and Datapoint's Resource Management Systems/Extended Architecture operating systems at prices ranging from $830 to $5,995.

III. TURNKEY SYSTEMS

In the last several years, Datapoint has introduced several new systems as follows:

- **Minx** - Introduced in 1985, this is Datapoint's Multimedia Information Network Exchange, a visual communications system that enables real-time two way video and audio communication between sites over a video link or a telephone line. Imbedding technology originally licensed from Picturetel, the system is currently in use by the judicial system in the U.S. and several other countries for remote video arraignment purposes, educational purposes and others. Other key accounts include the CIA, the Pentagon, and the Italian Army. There are 1500 Minx stations installed throughout the world. Datapoint has developed a proprietary cluster server that manages the system's interface to a broadband LAN. An average system now costs approximately $30,000. Picturetel has, in the meantime, continued to develop its own system which has been available in the U.S. for some time and was launched in the U.K. in August 1989.

- **Telemarketing systems** - In January 1990, Datapoint signed an OEM agreement with Billerica, MA-based communications systems supplier Davox Corp for a three-year exclusive representation in France and England for that company's line of workstations, data controller and autodial systems that are used in Datapoint's telemarketing systems. There are several installations in Europe.

- **ACD86**, an Automatic Call Distribution (ACD) system composed of telemarketing software from California-based Coffman systems running on dual Ultimate 7200 Pick system from Bull HN Information Systems. This custom system has only been sold in Europe, where, according to Datapoint data it has captured 40% of the ACD marketplace. Datapoint has an installed base of 225 ACD customers in Europe, and a reported 40% of the U.K. market. Some 70 percent of U.K. revenues are derived from the selling of Call Management Centers.

  NOT YOG IN UK
  STARTS IN FRANCE
  NEXT IN PROCESS

- **Vista/36**, In March 1990, Datapoint utilized its base 7800 model to exploit an opportunity it perceived in the IBM 34/36 area. This $133,000 product (includes 5 years of maintenance) utilizes California Software's Baby 36 software product and the combination apparently offers performance improvements of up to 8.7 times for existing IBM 34/36 applications, thus retarding an expensive and sometimes difficult conversion to an AS/400.

3. Worksheetings

[illegible]

[illegible] Systems

[illegible]

Kinds. [illegible]

[illegible]

Telemarketing systems. [illegible]

[illegible]

ATDBE. [illegible]

[illegible]

Vitalize. [illegible]

[illegible]

Datapoint has targeted Europe (France and England) and the U.S. as substantial geographic markets for this new product. For instance, there are over 6,000 potential sites in the U.K. and 20,000 in France. The product is now available, and two to three sales have been recorded.

Most industry analysts qualify Datapoint's latest product an a purely opportunistic attempt to capitalize on a temporary technology gap in the market. Datapoint vehemently denies the charges. In any case, this product is bound to have a fairly short life cycle simply due to the decreasing number of IBM 34/36 installations. While it will not generate significant levels of revenues for the firm, it nevertheless demonstrates Datapoint's integration abilities.

- o Vista/Image - a digital image storage and retrieval system that is mostly sold to distributors. Sales of this system have been disappointing.

ACD - in US -

Ford Dart ? - future ? MI revenue -

- validate - hd/sw platform -

→ delivery of ARCNET Plus - 2 out of 13 -

- Finally unique Box -

W/ Concurrence

SEAN SUNDSTROM
20 LINDENCREST DRIVE
DANBURY, CT 06811
PHONE 203 / 744-1134

Mr. Thomas O'Flaherty
Input

Dear Tom:

I just had a very interesting discussion with Jean Francois Raffestin, Datapoint's Director of Special Projects, so these directions are a little late. Anyway, here they are:

- If you are coming from New Jersey, you can take the GWU bridge, and then the Henry Hudson to the Saw Mill Parkway. It is usually the least crowded. Otherwise, you can take the Deagan to the Hutchinson Parkway. Either route will ultimately connect with 684. I recommend the first route.

- On 684, continue until until exit 9 or 10...it clearly indicates 84

- On 82, go to exit 2

- At Exit 2, bear left, go down the ramp to the bottom. Turn left at the light, go under the highway to the next set of lights.

- Turn right on Mill Plain Road. You will see an Exxon Station in front of you. Continue on Mill Plain Road, go through one set of lights and keep on going for 1/3 of a mile. On your right, you will come to a mini golf and batting range; on your left, you will see a BP station. TURN LEFT (up the hill) IMMEDIATELY AFTER THE BP STATION on Westwood Drive. There is also a sign that says Richter Park.

- Go up this hill, take the first left onto Lindencrest Drive. You will see stone pillars (small) on each side saying Aunt Hack Estates.

- Go up Lindencrest Drive to the four way stop sign. Go straight through the stop, and we are the third house on the right side. The number (20) and name are on the mailbox. The house has four pillars and a brick & ivy facade.

See you at 3PM. Call if you have any questions.

Sean

A. TPM Segment Valuation

1. "Recent" Acquisitions to establish P/R ratios.

Buyer	Seller	Price	Revs	Ratio Price/Revs
BellSouth Corp	Daimsiu	$96.6	139.0	0.69
Gencom Corp.	Momentum Tech	45.0	82.0	0.55
ITT's Sinucom	Bell & Howell	30.0	38.0	0.79
Nat'l Computer Systems	Avance	14.2	13.80	1.03
Bell Atlantic Sonbos	Elec Service Specialists	14.0	18.0	0.78

Average P/R = 0.77
Median P/R = 0.78. (need add'l examples) to quick summaries -

2. Performance of Segment

	'86	'87	'88	'89	'90F*	CAGR '86-'90
	in $ mm					
Sales	75.7	90.9	98.6	89.8	84.0	2.6%
Gross Profits	22.9	37.7	38.9	34.1	33.6	10.1%
Gross Profit Margins	30%	41%	39%	38%	40%	

* annualized revenues + profits ...

Note: performance from 89 to 89: decline of 7% in revenues.

3. Potential New Maintenance Business (Hardware & Software)

* Assumes that maintenance is not bundled -

	'86	'87	'88	'89	'90 F*
Hardware & Software Revenues	196.7	180.6	192.5	186.0	138.8
80% maintenance rate (delayed one year	—	157.4	144.5	154.0	148.8
Potential New maintenance Revenues		18.8	17.3	18.4	17.9
Actual Incremental maintenance (from Table 2)		15.2	7.7	(8.8)	(5.8)
Delta/Shortfall		(3.6)	(9.6)	(27.2)	(23.7)

Note: The above analysis would tend to show that maintenance revenues are eroding at a faster rate than they are being replaced by new contracts (delayed one year). The shortfall actually reflects $27 million in 1989

4. Potential New Maintenance Business (Hardware only)
(Software maintenance performed by software house).

	'86	'87	'88	'89	'90F
Hardware Revs	191.7	174.3	112.2	170.7	123.5
80% MT Rule (Delayed 1 year)		153.4	139.4	145.8	136.6
Potential New Maintenance Revenues		18.4	16.7	17.5	16.3
Actual Incremental MT Revenues (from Table 2)	—	15.2	7.7	(8.8)	(5.8)
Delta / Shortfall		(3.2)	(5.8)	(26.3)	(22.0)

5. Potential Valuation Range:

A. Discount Rate of 15%

(in $ mm)

		1989	1990
Average P/R	(.77)	$58.7	$55.0
Median P/R	(.78)	$59.5	$55.7

B. Discount Rate of 20%

Avg P/R	$55.3	$51.7
Median P/R	$56.0	$52.4

Problems

- What's the typical P/E of MT firms?
- Can't do a cash flow analysis.

Confidential
No. 42

DATAPOINT CORPORATION

April 1990

Kidder, Peabody & Co.
Incorporated

DATAPOINT

Confidential Evaluation Material

This confidential memorandum (the "Memorandum") contains proprietary and material non-public information about Datapoint Corporation ("Datapoint" or the "Company"). The recipient will be restricted from trading in the Company's securities.

The purpose of the Memorandum is to introduce the reader to Datapoint. The Company is exploring various alternatives designed to maximize shareholder value and as part of this exploration this Memorandum is being delivered to a limited number of parties who may be interested in purchasing the Company. Each has entered into a Confidentiality Agreement with the Company. The sole purpose of this Memorandum is to assist the recipient in deciding whether to proceed with a further investigation of the Company. This Memorandum does not purport to be all-inclusive or to contain all the information that a prospective purchaser may desire in investigating the Company. This document should be read in conjunction with public documents included in this Memorandum.

By accepting the Memorandum, the recipient agrees to keep confidential the information contained herein or made available in connection with any further investigation of the Company and not to seek to acquire any interest in the Company, or to influence its affairs, without the approval of its Board of Directors. The recipient should become familiar with these and other obligations to which the recipient is subject pursuant to the Confidentiality Agreement. This Memorandum may not be photocopied, reproduced, or distributed to others at any time without the prior written consent of the Company or Kidder, Peabody & Co. Incorporated ("Kidder, Peabody"). Upon request, the recipient will promptly return all material received from the Company or Kidder Peabody (including the Memorandum) without retaining any copies thereof, and will destroy all analyses based in whole or in part on any such material, all in accordance with the Confidentiality Agreement.

The Memorandum has been prepared for information purposes relating to this transaction only, and upon the express understanding that it will be used solely for the purposes set forth above. Neither the Company nor Kidder, Peabody makes any express or implied representation or warranty as to the accuracy or completeness of the information contained herein or made available in connection with any further investigation of the Company. Neither the Company nor Kidder, Peabody has any obligation to update or correct any information contained herein or made available in connection with any further investigation of the Company. Any estimates or projections of future financial and operating performance that may be supplied to you are based on assumptions which were considered to be reasonable at the time they were prepared, but should not be viewed as facts and should not be relied upon as an accurate representation of future results. The Company and Kidder, Peabody expressly disclaim any and all liability that may be based on such information, errors therein or omissions therefrom. The recipient shall be entitled to rely solely on the representations and warranties made to it by the Company in any final purchase agreement.

In furnishing the Memorandum, neither the Company nor Kidder, Peabody undertakes any obligation to provide the recipient with access to any additional or updated information. The Memorandum shall not be deemed an indication of the current state of affairs of the Company nor shall it constitute an indication that there has been no change in the business or affairs of the Company since the date hereof.

Kidder, Peabody has been appointed exclusive financial advisor to the Company. All communications, inquiries and requests for information relating to these materials should be addressed to Kidder, Peabody. The Company may not be contacted directly.

April 1990

Kidder, Peabody & Co.
Incorporated

DATAPOINT CORPORATION

TABLE OF CONTENTS

DATAPOINT CORPORATION

LIST OF TABLES AND GRAPHS

OVERVIEW

Datapoint Corporation is a marketer, manufacturer and developer of network-driven computer and communications hardware and software for commercial and government applications worldwide. The Company's sales are generated in two distinct areas: dataprocessing and telecommunications systems integration. Datapoint also derives significant revenue from the service and maintenance of installed hardware and systems. The table below summarizes the 1989 contribution of these three revenue sources.

Table A

Datapoint's 1989 Revenue and Gross Profit by Source

	Revenues		Gross Profit	
	$ Million	% of Total Revenues	$ Million	% of Total Gross Profit
Dataprocessing	$ 172.9	55.3%	$ 63.3	52.9%
Telecommunications Systems Integration	49.8 see p3	15.9%	21.6	18.1%
Field Engineering	89.8	28.8%	34.7	29.0%
Total	$ 312.5	100.0%	$119.6	100.0%

While headquartered in San Antonio, Texas, Datapoint is primarily a European company. European sales, which accounted for over 70% of 1989 sales, are concentrated in the United Kingdom, France, Sweden and Germany with 25.9%, 25.7%, 10.1% and 9.4% of European sales, respectively. Datapoint's remaining 1989 sales were divided between North America, with 18.4%, and Asia/Pacific, with 9.6%. Table B on page 5 illustrates the geographic breakdown of sales and operating income.

Datapoint conducts business outside the U.S. primarily through a network of subsidiaries. European subsidiaries are organized into a Northern European region including subsidiaries in the United Kingdom, Holland, Sweden and Germany, and a Southern European region including France, Belgium, Italy, Spain and Switzerland. Northern and Southern European operations are headquartered in London and Paris, respectively. The Company also maintains subsidiaries in Australia, New Zealand, Canada and Brazil (unconsolidated).

The San Antonio corporate headquarters complex houses corporate and financial staff, product development, marketing, customer support functions and manufacturing.

Strategic Evolution

Datapoint's evolution closely followed its industry's -- from an emergent stage, in which corporate success was achieved based on proprietary operating systems and closed architecture, to a mature stage, in which successful companies linked downstream value-added elements, such as applications expertise and after-market service, to industry-standard operating systems and open architecture. The Company shifted its product focus away from proprietary systems and now offers a broad range of systems capability and an extensive line of application-based turnkey systems. Datapoint focused its marketing efforts and applications expertise upon certain established groups within its installed base, such as automobile dealerships, banks, local government and libraries, and targeted new applications, such as manufacturing, distribution and insurance. Datapoint's entry into the telecommunications business was an outgrowth of such efforts. The Company has augmented this internal focus by establishing strong relationships with over 25 applications software suppliers throughout Europe, North America, Australia and New Zealand. These relationships have both strengthened Datapoint's market position within existing focus areas and provided a resource-efficient basis for entry into new markets.

Dataprocessing

Datapoint has a large, active installed base of dataprocessing customers, including leading European banks, financial institutions and government agencies (e.g. Societé Generale, Banque Bruxelles Lambert). Additionally, Datapoint is a major systems supplier to large U.S.-based multinationals and local governments, including Texaco, Ford Motor Corporation and the City of Mobile, Alabama. The Company estimates that the original purchased value of its systems installed worldwide is approximately one billion dollars.

Datapoint initially succeeded in building a strong customer base in the late 70's by offering its innovative ARCNET (Attached Resource Computers Network) local area network. Management estimates that over 2 million ARCNET nodes are installed, representing nearly one-third of the total LAN installations worldwide. Key to ARCNET's success has been its low cost, reliability and flexibility in integrating multiple manufacturers' network offerings.

More recently, the dataprocessing/networking market began moving toward industry-standard hardware and operating systems, combined with an increased emphasis on applications-based systems. Datapoint has evolved its technologies, operating strategies and product offerings to be compatible with these industry trends.

Systems integration is a Datapoint strength, particularly in European markets. Many of Datapoint's European sales consist of fully configured and installed systems addressing applications such as automobile dealership administration, flex-time labor management and reporting, government administration, library indexing and others.

Datapoint's systems integration focus is strongly supported by a highly skilled sales and marketing staff, important alliances with value-added resellers and application software suppliers, and unique product designs. For example, Datapoint's 7000 series minicomputer is sold both on a stand-alone basis and as a fully functional network file server. As network file servers, the Company's systems can effectively integrate customers' existing hardware, as well as interface with database protocols and operating systems for virtually all existing hardware manufacturers. Today, installed systems are providing this "seamless" operating environment to customers worldwide.

The following products represent the core components of integrated systems currently offered by Datapoint:

- 7000 series minicomputer. These high performance systems are configurable as shared logic minicomputers and as PC network servers. They are based on Intel's 80386 and 80486 microprocessor technology and are equipped with multiprocessing database applications capability and Relational Database Management System (RDBMS). This system runs Datapoint's proprietary RMS operating system, and is compatible with MS/DOS and OS/2.

- ARCNET is Datapoint's flagship local area network offering and is strengthened by ARCNETplus, its second generation LAN. Although ARCNETplus is eight times faster (20Mbit/sec) than ARCNET, it can operate simultaneously with ARCNET on existing networks, representing the industry's first multi-speed LAN offering. Five patents are pending on ARCNETplus.

- The Company offers a comprehensive line of communications and connectivity tools which support its systems integration/applications development capability. This line includes NETbios and other network management systems, Oracle database management systems plus various mainframe and mini-connectivity systems.

Database management, especially in real-time transaction processing and network applications, is a performance parameter of essentially all Datapoint systems. Customers today can run industry-standard applications on Datapoint systems installed several years ago. This capability illustrates the inherent compatibility of Datapoint's operating systems and the high level of consistency with which data is managed within Datapoint configured systems and networks.

Datapoint is also uniquely skilled in the integration of image processing tools into applications developments. Datapoint uses PC-compatible systems and network-based image processing techniques to simplify the manipulation of complex data structures. Its imaging tools are being used to design customized applications such as property tax valuation and inventory management.

Telecommunications Systems Integration

Datapoint is one of the leading systems integrators and distributors of inbound/outbound call management and telemarketing systems outside the U.S. The Company maintains product sourcing agreements with numerous leading manufacturers of telecommunications/telemarketing hardware. Datapoint's telecommunication hardware sales grew from a negligible base in 1984 to $32.6 million in 1989. Management believes rapid growth will continue as "800" services become more widely available and as European telecommunications authorities undergo further deregulation.

See p 7

Datapoint's entry into telecommunications was an outgrowth of both its communications/networking heritage and the Company's increased emphasis on systems integration.

The Company has achieved a 40% automatic call director (ACD) market share in the United Kingdom, Europe's largest telecommunications market. Its customer base contains some of Europe's most prestigious accounts, including American Express, Alitalia and British Telecom. Applications perform such functions as incoming/outgoing call management and call monitoring. Customized applications software, which can be networked to customers' databases, has been developed for brokerages, insurance companies, banks and credit card companies.

MINX, a second major telecommunications product offered by Datapoint, combines a video desktop terminal that transmits and receives high resolution, full-motion video and sound with a patented video switching system. MINX systems are being used to cost effectively process defendants through the criminal justice system in the U.S., Canada, New Zealand and Australia. Similarly, systems are being used to permit remote witness testimony in child abuse and sex abuse criminal cases. MINX systems are also being used for a wide variety of video conferencing, security and surveillance applications.

Marketing

Datapoint markets its products through multiple sales channels. Direct sales units within each subsidiary throughout Europe, North America, Australia and New Zealand generated 90% of product revenue in 1989. In North America, the Company also commissions independent sales representatives who market Datapoint products in conjunction with other vendors' product lines. The Company also uses value-added resellers (VARs) to market the Company's products in North America and throughout Europe. In addition, the Company utilizes independent distributors in certain countries where it does not have subsidiaries.

In its major telecommunications markets, the Company employs dedicated telecommunications sales forces.

Manufacturing and Suppliers

Products manufactured or assembled by Datapoint accounted for approximately 46% of 1989 sales. With the exception of four board repair and assembly operations in France, Canada, Australia, and the United Kingdom, Datapoint conducts all manufacturing operations in one facility in its San Antonio headquarters complex. Manufacturing consists of the assembly and integration of various purchased components and subassemblies. Significant outside suppliers include Zenith (monitors), Imprimis (disk drives), Televideo (central processing units), Samsung (memory components), and Dataproducts (printers).

Field Engineering

The quality of the Company's field engineering ("FE"), which comprised 29% of 1989 revenue and 29% of 1989 gross profit, is an essential element of subsidiary profitability. Datapoint employs 484 field engineers worldwide. These engineers possess a large proportion of the Company's hardware expertise, are among Datapoint's most tenured employees, and have long-standing customer relationships.

Financial

Datapoint's foreign subsidiaries continue to be profitable despite declines in its domestic business. Datapoint's 1989 and first half 1990 results were adversely affected by an industrywide downturn. Continued uncertainty about the future viability of the Company is perhaps the major contributing factor to the continued decline in U.S. revenue. Management, under the leadership of Michael Michigami, elected president in August 1989, instituted programs that are expected to reduce annual spending $41 million over fiscal 1989 levels by July 31, 1990.

Table B

SUMMARY PRO FORMA HISTORICAL FINANCIAL PERFORMANCE
($ in millions)

Fiscal Years Ended July 31,	1986	1987	1988	1989	First Six Months 1990	
Europe						
Revenue	$175.6	$197.9	$229.4	$223.7	$97.0	195 - 28
Distributor-Based EBIT(1)	13.8	26.7	31.0	23.0	9.8	
Operating Cash Flow (2)	NA	11.4	26.7	23.6	5.7	
North America						
Revenue	114.4	80.8	67.3	57.4	17.8	35 - 20
Distributor-Based EBIT(1)	(0.5)	(6.9)	(2.4)	(4.1)	(2.2)	
Operating Cash Flow (2)	NA	(2.1)	(0.1)	2.7	3.4	
Asia/Pacific						
Revenue	31.4	30.0	32.0	29.9	11.6	21 - 8
Distributor-Based EBIT(1)	4.7	5.4	5.6	4.0	0.6	
Operating Cash Flow (2)	NA	4.2	2.9	5.1	(0.5)	
Manufacturing						
Revenue (3)	109.4	91.3	90.1	69.4	20.4	
Distributor-Based EBIT	(5.3)	0.0	6.2	(1.0)	(1.2)	
San Antonio (Corporate)						
Corporate Overhead	(10.1)	(23.0)	(18.2)	(22.5)	(5.8)	
Goodwill & Software Amortization	(4.5)	(5.3)	(7.2)	(8.4)	(4.4)	
Total Costs	(14.6)	(28.3)	(25.4)	(30.9)	(10.2)	
Consolidated						
Revenue	325.2	312.1	330.8	312.5	127.6	254
Distributor-Based EBIT	(1.9)	(3.1)	15.0	(9.0)	(3.2)	
Non-Recurring Items	-	(56.8)	-	(11.0)	(7.4)	
Restated Distributor-Based EBIT	($1.9)	($59.9)	$15.0	($20.0)	($10.6)	

1) Pro forma figures, calculated as if Datapoint manufactured product were sold to subsidiaries at distributor prices, exclude restructuring charges.
2) Distributor-based EBIT plus depreciation less capital expenditures and increases in working capital.
3) Manufacturing revenue, primarily the sale of manufactured products to subsidiaries, is presented before inter-company eliminations. Summary consolidated data eliminates manufacturing revenue and EBIT, which are inter-company items.

DATAPROCESSING INVESTMENT HIGHLIGHTS

The international distribution network has been consistently profitable. In spite of a highly competitive climate, a decline in U.S. sales, and negative publicity surrounding the U.S. business and corporate control, Datapoint's international subsidiaries, through superior product, applications, and service expertise, have maintained their hold on major customers, revenue, and profits.

Datapoint has an active installed base of over 30,000 customer sites representing approximately $1 billion of original cost. Significant customers, including the Ford Motor Dealers of Europe, Banque Bruxelles Lambert, Societe Generale, Texaco, and Swedish local communities, rely on Datapoint to fill their needs for adding new and growing existing systems. Datapoint's applications and service expertise plays an important role in the continuing patronage of these significant customers.

Datapoint has a reliable stream of service and add-on revenue. This revenue stream bears a consistent functional relationship to the size of the installed base. Service contracts, which are executed together with approximately 80% of new end-user hardware sales, call for payments of approximately 12% of original hardware cost per year. The Company provides ongoing systems and software engineering as customers grow and change, in addition to field maintenance of hardware and software. These services are highly profitable and represented approximately 26% of 1989 gross profit. Since selling, general and administrative expenses relate disproportionately to new hardware sales, management estimates that the majority of subsidiary operating profits are generated by service activities. The potential profitability of these activities is understated, management believes, because prior generations of management did not charge for systems engineering and software for which customers have a demonstrated willingness to pay.

Subsidiary sales and service organizations possess considerable applications expertise. Datapoint provides significant applications value to customers through experts located in 114 offices worldwide. As a small competitor in a large industry, the Company evolved a strategy of focusing on applications niches, related primarily to existing customer applications such as automobile distribution, flex-time, banking, finance and insurance, but which were expanded, based on perceived market opportunity, to include libraries, manufacturing and distribution. One such area, call management, has grown to a size where it is now a business unto itself.

The Company has augmented its applications expertise through a series of affiliations with software and systems houses. Datapoint maintains strong relationships with over 25 applications software suppliers throughout Europe, North America, Australia and New Zealand, which have allowed the Company to more efficiently serve existing and access new customer markets. Formal relationships include software and enhancements supply agreements with companies such as Microfocus, Oracle, Keyword and Microsoft. Datapoint has also co-developed applications packages with suppliers, such as the cooperative creation of library data processing software with Microbuss, a German software supplier.

ARCNET and ARCNETplus support relationships with leading PC and local area network suppliers. The ARCNET technology also generates licensing income. Since 1981, Datapoint has licensed ARCNET technology to several manufacturers of OEM components and computer systems, for which it receives a royalty. ARCNET technology is widely accepted and supported by most leading PC and local area network suppliers including Novell, Banyan and 3COM. Management believes that ARCNETplus, announced in 1989, has potential for generating substantial licensing income.

TELECOMMUNICATIONS SYSTEMS INTEGRATION INVESTMENT HIGHLIGHTS

See p3

Datapoint has developed a highly profitable business in this market niche. The Company's telecommunications business, currently centered around call management, returned pro forma EBIT of $7.9 million on $39.9 million of 1989 sales. Since 1985, the first year of significant sales to this market segment, sales have grown at a compound rate of 68%.

Call center management is a high growth market. Industry experts estimate call center management market growth will exceed 40% annually over the next three years. They attribute this growth to telephone authority liberalization and the introduction of "800"-type phone services in the non-U.S. market. These developments have encouraged corporations to more aggressively utilize the telephone as a marketing and customer service tool. The Company is positioned to expand with the geographic scope of this market, which to date has developed primarily in the United Kingdom. The Company recently received PTT approval to market ACDs in Holland, Italy, and Belgium. The PTT approval process typically entails six months to one year of effort and involves numerous product tests. The difficulty in obtaining these approvals makes their possession a significant barrier to entry for potential competitors in these national markets.

Datapoint dominates the United Kingdom ACD market, with a share of over 40%. The Company's early identification of this market's promise permitted a rapid buildup of market share. The Company is therefore positioned to expand with the growth in the turnkey telemarketing systems market by emphasizing its presence, demonstrated market knowledge, and applications success.

Datapoint, building on its integration capability, has developed a turnkey telemarketing system. Datapoint possesses the expertise to design, integrate and market systems to harness the growth potential in its marketplace, as exemplified by its new turnkey telemarketing system.

Datapoint has built a substantial base with a number of significant customers. Management estimates the Company's installed base at approximately $70 million. Significant clients include American Express, Michelin, Alitalia, Northwest Securities and British Telecom. This installed base of predominantly ACD customers is a natural target market for sales of Datapoint's turnkey telemarketing system.

Datapoint has developed supplier relationships which enable it to leverage its systems integration skills and market presence with the new product development and manufacturing investments of other firms. The Company outsources its entire product line and performs the design, marketing, installation and integration functions.

HISTORY

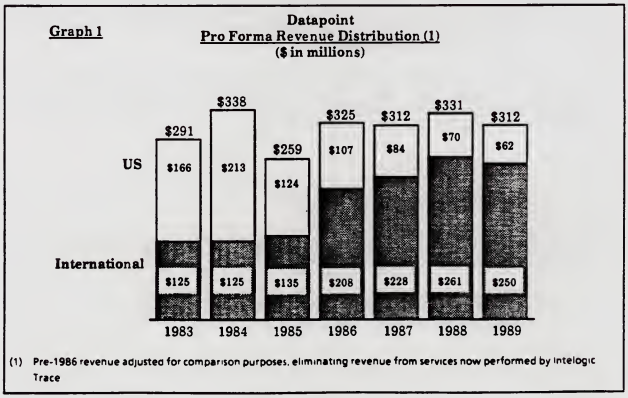
Datapoint began as an innovator of proprietary hardware, systems and software and evolved into a solution seller, stressing systems knowledge and a new industry-standard compatible product line.

In 1977, Datapoint pioneered networked distributed data processing by developing the first local area network ("LAN"), the Attached Resource Computer Network ("ARCNET"). ARCNET enabled different Datapoint processors and workstations to be linked to form a single integrated and powerful computing system. The sharing of computer power exponentially expanded systems capabilities and gave users the flexibility to incrementally increase capacity without replacing entire systems.

International Data Corporation's "1981 Market Trends Report" found that by 1980 Datapoint had captured over 10% of the networked processor market in the United States, second only to Wang. Datapoint's systems in the early 1980's included a comprehensive line of distributed data processing products designed to complement the ARCNET's strengths, including networked processors, and terminals and peripherals which operated on RMS, the Company's proprietary operating system.

Datapoint entered the international computer systems distribution business through two 1981 acquisitions of businesses distributing Datapoint products. These acquired businesses developed into the Company's present core, accounting for nearly 80% of Datapoint's 1989 revenues. The Company acquired Inforex, a U.S.-based company with a network of six sales and service subsidiaries in Western Europe and one subsidiary in Canada, and TRW's international sales and distribution network of nine subsidiaries in Western Europe, one subsidiary in Brazil and 21 additional independent distributors located throughout the world. Following consolidation into Datapoint, these subsidiaries pursued business strategies based on unique applications expertise and focused marketing.

As the graph below indicates, international revenue has grown as a proportion of total company sales.



(1) Pre-1986 revenue adjusted for comparison purposes, eliminating revenue from services now performed by Intelogic Trace

In 1985, Datapoint underwent a change in control. The new board of directors, in an effort to maximize the Company's value, implemented a plan of restructuring. As part of this plan, the board spun-off the domestic customer service division of Datapoint to Company shareholders. The new company, Intelogic Trace, was given exclusive rights to service Datapoint's domestic customers. Datapoint continues to service its international customers and provide spare parts to Intelogic Trace. This service generated 29% of Datapoint's 1989 revenue.

Since 1985, Datapoint has undergone four complete changes in senior management. This volatile managerial environment has hampered the Company's ability to develop and maintain the consistent sales and marketing strategy necessary during a period of rapid technological change and industry consolidation. The Company's instability has also handicapped the development of new customer relationships. These difficulties have resulted in lost market share and revenue decline in the U.S. Despite U.S. setbacks, the Company's international network benefited from relatively stable subsidiary management and insulation from Datapoint's tarnished U.S. image. During this same period, the Company successfully expanded its products' compatability with industry standard platforms. These developments, and the international subsidiaries' evolution of an applications-focused marketing approach, positioned them to successfully compete in the changed market environment.

PRODUCTS

Datapoint offers three principal product groups: a core dataprocessing product line; complementary networking, connectivity and telecommunications products; and software systems. The table below summarizes Datapoint's core dataprocessing product line.

Dataprocessing

Core Dataprocessing Products

	Traditional RMS & DOS Systems	RMS/XA Systems	UNIX-Based Systems
Model	8600/8800	7000 Series	DX Series
Years Sold	1980 - 1989	1988 - present	1989 - present
Processor	Proprietary	80386/80486	68030
Operating System	RMS/DOS	RMS/XA	UNIX
Memory	128K-1MB/ 256K-1MB	4MB-128MB	4MB-64MB
Storage	10MB-130MB	79MB-26GB	48MB-2.4GB

Although traditional RMS & DOS systems are no longer sold, they represent a base of service revenue from those existing customers who do not warrant upgrading to more advanced system configurations. The 7000 series and UNIX-based DX systems are especially important to the Company's current systems integration and networking capability.

- 7950 Multi-Processor - The 7950 incorporates up to six 80386 CPUs which provide the power required to accommodate simultaneous batch processing and intensive interactive applications.

- 7800 and 7700 Processors - The Datapoint 7800 incorporates both the 80386 and 80486 processors. The 7700 processor, like the 7950, incorporates the 80386 processor. The 7800 is a dual-processor system designed to provide network support to department sized organizations. The 7700 is a desktop-sized entry-level system targeted at the work group. These systems are well-suited to management of computing resources where electronic mail, scheduling, and time management activities, for example, are essential. Datapoint's 7000 series systems are configurable as shared logic minicomputers or as PC network servers.

- UNIX DX100,DX200, and DX300 Systems - Datapoint's network servers, operating under an industry-standard UNIX operating system, are targeted at the emerging business market for UNIX dataprocessing. Incorporating interfaces with Datapoint's ARCNET networking technology, these UNIX systems also feature extensive connectivity capabilities with other protocols and standards.

Networking and Connectivity

To further strengthen its position in the evolving distributed dataprocessing and PC networking marketplace, Datapoint offers an extensive line of networking and connectivity products, complementary software systems and add-ons. These include:

- DATALAN PC Local Area Network - DATALAN is a new high performance IBM/Microsoft-compatible PC network system that builds on over a decade of commercial-grade networking experience at Datapoint. DATALAN offers large-capacity servers (up to 32MB of cache and up to 12 GB of disk) and fast backup archival facilities (up to 35 GB). DATALAN readily interfaces with Datapoint hardware and software systems for access to the processing and communications capabilities available under RMS.

- RMS Network Management System - Datapoint's network management system, RMS, is a multi-tasking and multi-processing local area network environment. The RMS environment is consistent across Datapoint's product line, so software that is used on an entry-level Datapoint system can manage mid-sized and large systems without any reprogramming. Likewise, headquarters' offices and remote branches can run the same software and achieve total compatibility.

- The ORACLE Relational Database Management System (RDBMS) - Datapoint offers ORACLE, the industry's most popular solution for information and data management. Executing in native mode on high-performance Datapoint platforms, ORACLE offers end-users and VARs the ability to quickly and cost-effectively develop, and bring on-line new applications. Datapoint's extensive networking experience provides the high-performance communications backbone for the ORACLE distributed processing environment.

- ARCNET, a 2.5Mbit/second local area network developed by Datapoint in 1977, provides system integration for the Company's dataprocessing and PC network customers. Widely accepted outside Datapoint, ARCNET is utilized in 30% of LANs installed worldwide.

- ARCNETplus is the 20Mbit/second second generation of the Datapoint ARCNET local area network. Developed by Datapoint, ARCNETplus is a multiple-bit-rate LAN which can operate simultaneously with ARCNET on existing networks. It is a multi-speed LAN that can operate simultaneously at 20Mbit/second or 2.5Mbit/second. There are five ARCNETplus patents pending.

- A PC-compatible line of diskless workstations ranging from a low-cost Intel 8088-based workstation to a state-of-the-art Intel 80386-based product supporting the latest innovations in graphics and performance.

The Company's dataprocessing and networking systems are supported by an extensive library of software designed to meet a vast array of business applications. Today's basic software products consist of a series of industry-standard development tools, such as ANSI COBOL, ANSI C, ORACLE RDBMS, and ANSI DATABUS (pending). Other applications software has been designed by Datapoint as part of a custom design service offered to its customers. A wide variety of additional software application packages are available from applications software suppliers to run on Datapoint equipment. Finally, because of Datapoint's interconnect capabilities, it is possible for software designed for other vendors' operating systems to be accessed on Datapoint's ARCNET.

Telecommunications Systems Integration

Datapoint offers three principal telecommunications products; inbound automatic call directors (ACDs), outbound telemarketing systems, and the MINX video communications system developed and produced by Datapoint.

The ACD 86 is able to manage a high volume of inbound call traffic. Color graphic displays allow instant visual identification of the current status of operations and produce detailed performance statistics to allow managers to further improve agent productivity and profit. Datapoint is its supplier's exclusive marketer/distributor in most major countries outside the U.S. The Company has successfully gained type approval for the ACD product from national telecommunications authorities in the United Kingdom, Holland, Italy and Belgium. Type approval is being sought in Spain and Germany.

Datapoint also distributes an outbound telemarketing system designed to increase effectiveness and productivity in situations where many outbound calls need to be made and followed up in a structured manner (e.g., credit and collections). The agent is prompted with a series of screens which respond interactively to information gained from the caller, thereby allowing targeted campaigns to be run with maximum success.

MINX is an advanced telecommunications system which integrates full-motion color video and sound with computing and local area networking capabilities. Over the last few years MINX has become vastly more cost effective to users as the cost of the codec required to transmit video signals across phone lines has dropped from approximately $90,000 to approximately $30,000 per codec. This cost has historically limited the product's use to campus environments, where dedicated transmission lines obviated the need for multiple codecs. The MINX technology is now being utilized in diverse applications such as: remote video arraignment by court systems in the U.S., Canada, Australia, and New Zealand; educational systems for the deaf in U.S.; video conferencing by corporations such as Bell South; and by security and surveillance organizations throughout the world.

INSTALLED BASE - TARGET CUSTOMERS

Datapoint has installed over 10,000 ARCNET networks, which represent approximately 5% of total worldwide network installations since 1977. In total, the Company's various products are installed in over 16,000 domestic and 14,000 international sites.

Datapoint's customers comprise a broad range of institutions, including small business, state, local and federal government agencies, foreign governments and many of the world's largest corporations. A selected list of some of the Company's largest domestic and international customers is provided below.

Selected Major Customers

Banque Bruxelles Lambert (BBL)
Boeing
British Telecom
City of Mobile, Alabama
Credit Lyonnais
EDF (French Power Authority)
Ford Dealers of Europe
Hewlett Packard
Libraries of Holland
Medical College of Georgia
Societe Generale
Security Pacific
Spanish Automobile Ministry
Swedish Local Communities (through Kommundata)
Taiwan Tax Bureau
Texaco
Toronto Sun
UNOCAL

Dataprocessing/Networking Customers

Datapoint products and services support a wide range of customers and applications as illustrated by the examples which follow:

The City of Mobile, Alabama maintains an MIS department that manages a city-wide network driven by two Datapoint 7950 symmetric multi-processor systems supporting more than 2 GB of online data. The network serves the planning, financial and accounting functions of the city, and the fire department, animal shelter, public safety department, motor pool, municipal garage and many other departments. The Datapoint network is fully interconnected with the city's AT&T System 85 telephone system. This ARCNET system supports 200 simultaneous users linked through PCs and terminals.

Texaco uses Datapoint systems in such operations as producing, refining, chemical manufacturing and marketing for local processing and for data transmission to and from the Texaco mainframe financial updating systems. Texaco has installed Datapoint systems at 17 sites worldwide. These systems range from multiple 7950's down through single 7800's and include older 8600/6600 systems.

Kommundata - Sweden was founded by the Swedish government in 1965 to provide efficient EDP solutions and services to all of Sweden's local community authorities and county councils. Kommundata has been using Datapoint products for seventeen years. Nevertheless, 38 percent of Datapoint's sales to Kommundata in 1989 supported entirely new installations.

Varbergkomm, a typical Kommundata customer, is a township of fifty thousand people on the west coast of Sweden. Varberg has two interconnected networks driven by a Datapoint 7950 multiprocessor, approximately two hundred workstations, ten miles of network wiring connecting eight buildings over six blocks, and telecommunications lines connecting multiple remote locations.

DARTS is a Datapoint/Ford alliance in Europe. Through this alliance, Datapoint supports 75% of the volume generated by Ford's European dealerships with fully integrated systems. The DARTS software system, which was developed by Datapoint and runs on a variety of Datapoint hardware platforms, includes integrated modules for invoicing, parts ordering and inventory, direct order entry for vehicles, warranty, payroll, finance and marketing. A DARTS system harnesses the flexible ARCNET architecture by supporting hardware and applications additions as the dealership grows.

The Banque Bruxelles Lambert (BBL), a major European bank, has more than one thousand branches and conducts business worldwide through a network of correspondent banks. BBL first automated accounts and securities in 1960 and became a Datapoint customer in 1972. BBL supports its vast range of financial activities through one EDP infrastructure based on Datapoint's multipurpose network servers Datapoint networks, incorporating 40 model 7950 servers, almost a thousand other processors, and 36GB of online storage, serve 5,000 users. Security features integrated within Datapoint hardware and software systems are of special value to BBL's rapidly expanding global financial services capability.

Datapoint's large installed base is a valuable resource for new business prospects involving new applications for the same customer, or the same applications to new customers with similiar needs. The Company's extensive installed base has driven the development of valuable applications software and systems and provides a large captive market for high-margin add-on and upgrade sales. The ARCNET network's flexibility makes it ideally suited to network expansion and strengthens the Company's ability to serve large corporate and government customers with large systems integration and expanding information system needs.

Telecommunications Systems Integration Customers

The European telecommunications systems integration marketplace has grown rapidly over the past three years, from estimated industrywide sales of $25 million in 1986, to $300 million in 1989. Industry consultants predict a 50% increase in industry sales over the next two years. There are several reasons for this projected explosive growth. First, telephone authorities throughout Western Europe have approved the use of toll-free phone numbers, thereby greatly expanding the potential marketing applications of the telephone. Second, technology has evolved from the simple automatic call director (ACD) to complex incoming and outgoing call systems that include applications software and networked links to databases, thereby increasing potential systems applications. Finally, companies are utilizing toll-free numbers and new systems for customer service, credit validations, bill collection, sales and sales support.

Datapoint has a 40% ACD market share in the United Kingdom, the largest European telecommunications market. The Company is also positioning itself as a key competitor in the emerging European telemarketing systems market by securing local PTT approval to market ACDs in Holland, Italy, France and Spain. Datapoint has established an installed base of 225 ACD customers, including American Express, TMS (British Telecom's telemarketing unit), Michelin, Alitalia, British Telecom, DHL and Hewlett Packard.

Datapoint is the first company to offer to the European market a completely configured turnkey telecommunications package combining ACD and terminal hardware with applications software. The Company is marketing complete systems to its established ACD customer base and is developing applications for financial services companies, insurance companies, banks and collection agencies. Datapoint recently sold the inbound/outbound systems in an integrated configuration to the First Direct branches of Midland Bank. This integrated system sale is a first in retail banking. Assisting this integration is a range of terminals that allow programmable screen level connectivity between a variety of disparate host systems so that an agent can interrogate a range of separate databases simultaneously.

SALES AND MARKETING

Datapoint markets its products through both direct and third party channels. The table below summarizes Datapoint's 1989 hardware and software revenue by channel of distribution.

Table C

1989 Hardware and Software Sales Revenue by Distribution Channel
($ in millions)

Channel	Geographic Markets	$	%
186 Direct Salesmen (1)	• Europe • U.S./Canada • Australia/New Zealand	$163.7	88.0%
28 Independent Distributors	• Africa/Middle East • Scandinavia/E. Europe • South America/Asia	14.4	7.7%
5MM 37 Independent Commissioned Representatives and 64 Value Added Resellers 3MM	• U.S.	7.9	4.3%
Total		$186.0	100.0%

(1) Includes $9.2 million in lease revenue.

Direct sales, responsible for approximately 90% of hardware and software sales revenue, is accomplished through a network of 17 domestic offices and 13 international subsidiaries.

Sales Representatives and Account Managers are primarily responsible for the management of Datapoint's most important existing account relationships, new account development and the growth of smaller accounts. Sales Representatives focus on the department and corporate levels of medium to large organizations (including government, Fortune 500, and banking institutions).

A highly skilled group of **Systems Engineers ("SEs")** assist the Sales Representatives and independent distributors with technical elements of the sales approach, including software modifications, customer training, etc. These SEs comprise approximately 24% of the field organization personnel and are critical to designing intelligent networks and configuring systems that meet individual customers' needs.

Telemarketers for North America operate out of the San Antonio headquarters complex. They are primarily responsible for day-to-day contact with the existing customer base and soliciting orders for system add-ons and consumables. They are also responsible for updating customers and sales representatives on special product pricing opportunities and relevant product information.

In Europe, telemarketers play a vital role in pre-screening accounts for specific data processing and telecommunications sales leads. A telemarketing team is assigned a target client market to saturate with introductory calls. The best potential leads are then delivered to the sales representatives for follow-up sales presentations.

Third party sales are accomplished by independent distributors, value-added resellers and independent commissioned representatives. The most important of these groups is Datapoint's network of 28 independent distributors, which generated $14.4 million in 1989 sales revenue. The

Company utilizes these distributors throughout markets in Africa, Asia, the Middle East, Scandinavia and Eastern Europe. More than half of the dollar volume of these sales consists of 7800 and 7950 series server-based systems. Over 60 value-added resellers, mostly within the United States, purchased $3 million of Datapoint hardware for re-sale configured in systems with their own software and enhancements. Their purchases consist primarily of 7800 and 7950 series processors. Independent commissioned representatives, which sold $5 million of the Company's products in 1989, act as agents for Datapoint and other vendor products throughout North America. 7700 and 7800 series processors generated a large portion of 1989 commissioned representatives' sales.

In an effort to maximize effectiveness, Datapoint has organized its sales and marketing managers and support staff to address separately the dataprocessing and telecommunications systems integration markets.

Dataprocessing Sales and Marketing

There are 26 U.S. sales representatives and account managers, 25 systems engineers and four telemarketers who sell primarily dataprocessing and data communications systems and hardware. These personnel, who operate out of 17 sales offices throughout the country, are organized by customer focus into one of the following sales groups: end-users; value added resellers; public sector; and MINX sales.

The European dataprocessing sales force is uniquely organized within each country, though certain traditional Datapoint core applications such as financial services, government, and Ford DARTS, are common throughout the subsidiaries. The larger subsidiaries, such as France and the United Kingdom, market by industry segment (e.g. data entry) to better utilize the unique applications expertise of its sales and systems personnel. In smaller subsidiaries, where a substantial portion of revenue may be derived from one or two major accounts, sales resources are structured on an account specific basis. The following table summarizes the applications focus for Datapoint's European subsidiaries.

Table D

European Subsidiary Applications Focus

Subsidiary	Core Application Expertise	Other Application Expertise
France	Financial Services, Ford DARTS, Government	Libraries, Flex-time, Data Entry, Insurance
United Kingdom	Financial Services, Ford DARTS, Government	General and Commercial Dataprocessing
Holland	Ford DARTS, Government	Healthcare. Libraries, Transportation, Data Entry
Germany	Ford DARTS	Libraries, Data Entry, Region Specific, (e.g., North, South)
Belgium	Financial Services, Ford DARTS	Libraries, Distribution, Insurance
Spain	Financial Services, Ford DARTS, Government	Libraries, Data Entry
Italy	Financial Services, Government	Region Specific, (e.g., North, South)
Sweden	Ford DARTS, Government	Manufacturing, Transportation
Switzerland	Ford DARTS, Government	Libraries, Data Entry

Telecommunications Systems Integration Sales and Marketing

Dedicated telecommunications sales organizations exist only in the United Kingdom and France, which together accounted for over 82% of Datapoint's 1989 telecommunications revenue. In the United Kingdom, 15 sales representatives and eight systems engineers are dedicated to the sale of telecommunications systems. France's sales force includes eight sales representatives and four systems engineers. These sales organizations also support the other European subsidiaries that have recently initiated the sale of telecommunications products.

Datapoint recently developed a complete telemarketing package that includes design and installation of hardware and applications software to efficiently manage inbound and outbound calls, while providing pertinent marketing and billing information. The sales force is concentrating its efforts on selling these complete packages to customers in the financial services industry. Datapoint uses the team approach for solution sales, assigning multiple sales representatives and systems engineers to one customer. Before the sale, these teams configure a system that is customized to the prospective customer's unique needs. After the sale, teams conduct extensive customer training to assure optimal use of newly installed systems.

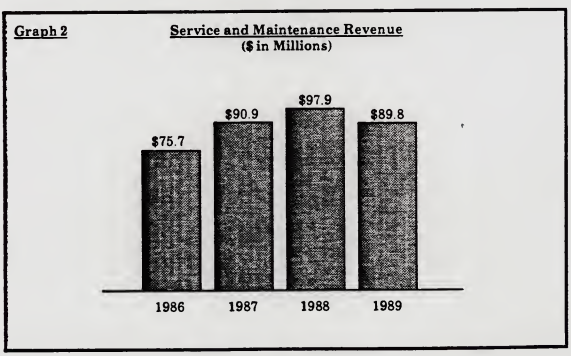
SERVICE AND MAINTENANCE

Service and maintenance of the Company's large, international customer base is highly profitable. In 1989, service and maintenance revenue totaled $89.8 million and produced $34.1 in gross profit. Datapoint maintains a service organization of 484 field engineers and support staff organized throughout the nine major European subsidiaries, Australia, Canada and New Zealand. Customers, when surveyed by Datapoint in 1989, consistently mentioned the Company's outstanding level of service as a major factor in their decision to continue to purchase products from the company.

Datapoint's service organization is staffed by many of the Company's most tenured employees, with an average seniority of nearly eight years. This lengthy average tenure has led to the development of a culture that emphasizes customer satisfaction. Datapoint field engineers are on call at all times. They are dispatched through 70 service and maintenance offices throughout Europe, Australia, Canada, and New Zealand. In addition to office locations, field engineers utilize their company vehicles as mobile offices and spare parts warehouses, which provide the service organization much greater flexibility and facilitate more rapid response to customer inquiry. Each subsidiary also maintains its own central warehouse for storage of spare parts.

Datapoint has recently introduced "Info-Calls", a field service dispatch system. Info-Calls is networked with database records that catalog an inventory of each customer's Datapoint hardware and software and its service and warranty history. The customer call requesting service generates a copy of its complete record, which is then forwarded to the servicing field engineer. The service call is then tracked for speed and type of service delivered. Info-Calls is presently in place in the United Kingdom, Sweden, and Holland, and will be in place in the other major European subsidiaries within the fiscal year.

Intelogic Trace, a company spun off to Datapoint's shareholders in 1985, is the Company's officially authorized maintenance provider for its U.S. customer base. Service is also available from several third-party vendors, including certain value-added resellers. Datapoint management believes the loss of service revenue was a significant contributing factor in the decline of Datapoint's U.S. business.



SOURCING AND MANUFACTURING

Datapoint purchases many products from third parties that manufacture these products to Datapoint's specifications. The products are then resold under Datapoint's name as a part of Datapoint systems. The Company manufactures the core 7000 series products by assembling various purchased components into subassemblies, which are then assembled into finished processors. The primary manufacturing functions are board assembly, large processor assembly and configuration, system integration and final system testing. These processes are performed at a 206,000 square foot facility in San Antonio, Texas by 62 hourly manufacturing employees and a salaried staff of 76 management and support personnel. The same facility is used for material receipts, warehousing, distribution and shipping operations. The Company also has board repair centers in the United Kingdom, France, Canada and Australia.

Table E

Manufacturing (1)

Pro Forma Operating Results
($ in thousands)

Revenue	1986	1987	1988	1989
Hardware Sales	$109,437	$91,124	$90,017	$68,476
Software	0	187	120	941
Total Revenue	109,437	91,311	90,137	69,417
Gross Profit				
Hardware Sales	24,427	19,782	23,572	14,655
Software	0	0	0	0
Other	(4,558)	(342)	(730)	(697)
	19,869	19,440	22,842	13,958
Product Development Exp.	19,797	11,794	7,624	7,019
Operating Expenses	5,350	7,652	9,005	7,895
Operating Income	($ 5,278)	($ 6)	$ 6,213	($ 956)

(1) Financial information is presented as if manufacturing operated on a separate company basis and sold product at distributor prices.

SUPPORT

Datapoint's central support staff is located at the Company's headquarters in San Antonio, Texas. This staff provides finance, accounting, treasury, marketing, product development, customer service, human resources and legal support for all worldwide operations. Datapoint has undertaken a number of cost saving measures in recent years that have involved reducing central support staff employment from 575 in 1987 to 200 today.

Each international subsidiary maintains its own management team and support staff which provide varying levels of sales, product and technical assistance as well as subsidiary performance planning. Datapoint also supports its northern European subsidiaries with a regional headquarters in suburban London, and southern European subsidiaries with a regional headquarters in suburban Paris. These regional offices provide central planning and accounting for the European subsidiaries and support for the worldwide distributor network. The regional offices also serve as an interface between European operations and San Antonio support functions.

A detailed schedule of support personnel by function and location can be found in Table F on the following page.

EMPLOYEES

Datapoint has undergone a reduction in total employment from 3,516 personnel in 1987 to the present total of 2,104. The table below breaks down all Datapoint employees by function and location.

Table F

Datapoint Employees by Function and Location

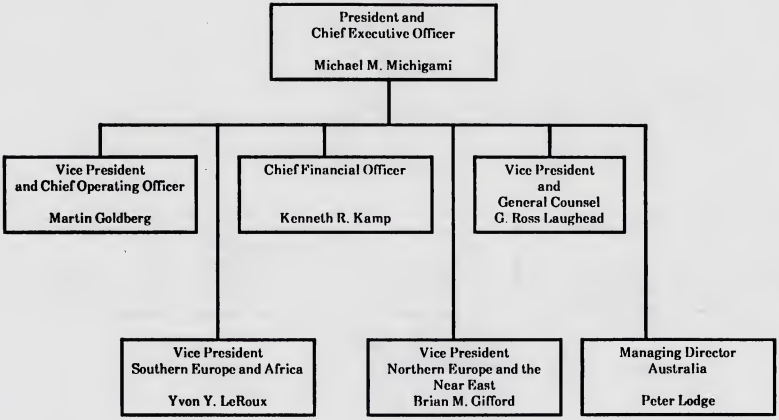
	U.S. Sales	Europe	New Zealand, Canada, Australia	San Antonio	Total
Staff					
Executive		11	3	5	19
Finance and Treasury		106	32	73	211
Worldwide Marketing				15	15
Product Development		33		46	79
Customer Service				39	39
Administration/Order Entry		80	23	11	114
Human Resources				7	7
Legal				4	4
Subtotal		230	58	200	488
Sales					
Management	7	29	5		41
Sales Reps & Account Managers	26	136	24		186
SEs	25	61	32		118
Administration	7	45	17		69
Other Marketing Support	18	54	4		76
Subtotal	83	325	82		490
Service & Maintenance					
Management		36	16		52
Field Engineers		374	110		484
Technical Support		223	27		250
Administration		62	13		75
Other		26	2		28
Logistics/Board Repair		94	5		99
Subtotal		815	173		988
Manufacturing					
Management				12	12
Hourly Manufacturing				62	62
Technical Staff				30	30
Other & Buyers				5	5
Ping/Sch.				5	5
Ship/Rec				12	12
Administration				12	12
Subtotal				138	138
TOTAL	83	1,370	313	338	2,104

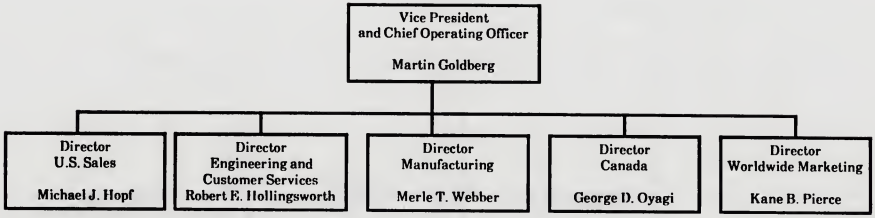
MANAGEMENT

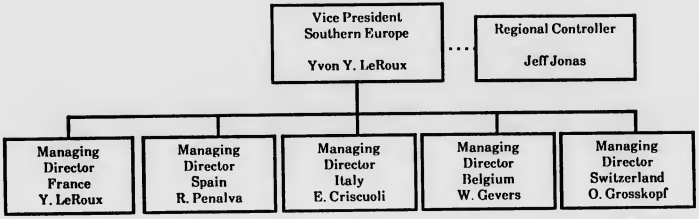
Datapoint's management team is led by Michael Michigami, who was elected President and Chief Executive Officer in August of 1989. Datapoint has a strong corps of international managing directors who are an important element in the success of the Company's international subsidiaries. Biographies of principal management personnel and management organization charts follow.

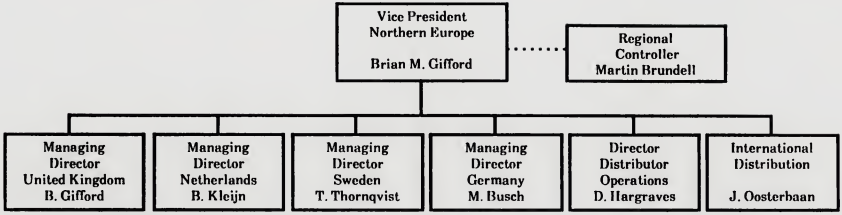
Biographies

Name/Title	Age	Experience
Michael M. Michigami President, Chief Executive Officer and Director	42	President, Chief Executive Officer and Board Member since August 1989. President of United Technologies Control Systems from 1986 to 1989. President of Mostek Corporation, a subsidiary of United Technologies, from 1985 through 1986. Director of Strategic Planning for United Technologies from 1983 to 1985. General Electric Credit Corporation from 1981 to 1983. Project Manager for Booz, Allen, Hamilton Inc. from 1977 to 1981.
Martin Goldberg Vice President Chief Operating Officer	43	Vice President and Chief Operating Officer since November 1989. Previously Director and General Manager of the Automotive Systems Unit, United Technologies Control Systems from 1987 to 1989. Various positions with United Technologies Corporation from 1978 to 1987.
Kenneth R. Kamp Chief Financial Officer	43	Chief Financial Officer since August 1989. Has held various financial management positions of increasing responsibility with Datapoint since September 1984. CPA with Peat Marwick and Main from 1980 to 1984. Executive Vice President and Chief Financial Officer of Whitaker Electric Company from 1978 to 1980.
G. Ross Laughead Vice President and General Counsel	37	General Counsel since February 1988. Corporate Secretary since 1985. Has held legal positions of increasing responsibility since joining Datapoint in 1982. Previously an attorney with the law firm of Wood, Lucksinger & Epstein.
Brian M. Gifford Vice President North European Region	51	Vice President of Northern European Region since October 1986. Managing Director of Datapoint (UK) Ltd since 1981. Joined Datapoint from Nexos (UK) Ltd where he was General Manager.
Yvon Y. LeRoux Vice President South European Region	46	Vice President of Southern European Region since 1985. Managing Director of Datapoint France since 1984. Previously Marketing Director of International Operations at Sperry Univac, 1983 to 1985.


President and
Chief Executive Officer
Michael M. Michigami
Vice President
and Chief Operating Officer
Martin Goldberg
Chief Financial Officer
Kenneth R. Kamp
Vice President
and
General Counsel
G. Ross Laughead
Vice President
Southern Europe and Africa
Yvon Y. LeRoux
Vice President
Northern Europe and the
Near East
Brian M. Gifford
Managing Director
Australia
Peter Lodge


Vice President
and Chief Operating Officer
Martin Goldberg
Director
U.S. Sales
Michael J. Hopf
Director
Engineering and
Customer Services
Robert E. Hollingsworth
Director
Manufacturing
Merle T. Webber
Director
Canada
George D. Oyagi
Director
Worldwide Marketing
Kane B. Pierce


Vice President
Southern Europe
Yvon Y. LeRoux
Regional Controller
Jeff Jonas
Managing
Director
France
Y. LeRoux
Managing
Director
Spain
R. Penalva
Managing
Director
Italy
E. Criscuoli
Managing
Director
Belgium
W. Gevers
Managing
Director
Switzerland
O. Grosskopf


Vice President
Northern Europe
Brian M. Gifford
Regional
Controller
Martin Brundell
Managing
Director
United Kingdom
B. Gifford
Managing
Director
Netherlands
B. Kleijn
Managing
Director
Sweden
T. Thornqvist
Managing
Director
Germany
M. Busch
Director
Distributor
Operations
D. Hargraves
International
Distribution
J. Oosterbaan

REAL ESTATE AND FACILITIES

Datapoint owns seven real estate properties: four improved sites and two tracts of vacant land in San Antonio, and one improved property in Gouda, The Netherlands. The improved properties in San Antonio are located on Datapoint Drive (8400, 8410, 8550, and 9725 Datapoint Drive), as is one small tract of vacant land. The other parcel of vacant land in San Antonio is a large, 148-acre site located along Interstate Highway 10 ("IH-10") between DeZavala and Hausman Roads (the "DeZavala Tract").

The table below contains more detailed descriptions of the properties and improvements of these properties.

Table G

Real Estate and Facilites

Property	Description
8400 Datapoint Drive	Five story office building, constructed in 1968. 68,724 square feet of gross building area.
8410 Datapoint Drive	Three story office building constructed in 1972. 110,320 square feet of gross building area.
8550 Datapoint Drive	Two and three story split level building constructed in 1972. 34,624 square feet of gross building area.
9725 Datapoint Drive	One and two story split level building constructed in 1970 - 1974. This facility is 206,000 square feet and houses Datapoint's manufacturing, warehousing, shipping and receiving.
DeZavala Tract	148.15 acres vacant land.
Parcel adjacent to 8410 Datapoint Drive	3.77 acre parking lot.
Gouda, The Netherlands	Five story office building. 52,000 square feet of gross building area.

Datapoint leases 128 offices throughout the world that are utilized for sales, service and administrative functions. The following table enumerates these offices by country location and function.

Table H

Number of Offices by Country Location and Function

Country	Sales	Service	Sales & Service	Administrative
U.S.	17			1
Belgium				1
France		17	4	1
Italy	1	5		1
Spain		4	2	1
Switzerland		2		1
Germany		15	3	2
Holland		4		1
Sweden		6	1	1
U.K.	2	8	2	1
Australia		3	4	1
New Zealand	1	2		1
Canada		3	6	1
Brazil			1	1
Total	21	69	23	15

1990 First Six Months

Revenues during the first six months of fiscal year 1990 were 19% below the comparable period of the prior year, primarily due to an industry-wide downturn and the announcement of pending restructuring efforts which adversely affected hardware sales to new customers.

During the first half of fiscal year 1990, Datapoint restructured its North American sales operations and its corporate staff and support activities, resulting in one-time charges of $7.5 million but producing future annualized cost savings of approximately $18.6 million.

1989

Datapoint's revenues decreased 5.5% during 1989 due to the continued decline in U.S. sales, an industrywide downturn, and the completion of a significant contract with the U.S. government in early 1989. Although foreign revenues declined $11.5 million in U.S. dollar terms, foreign subsidiary revenues were flat on a local currency basis.

The Company's 1989 profitability was adversely affected by one-time restructuring charges of $11.1 million comprised of employee severance accruals, office closing accruals, and other charges. The Company also incurred expenses totaling $5.5 million for the writedown of inventory and capitalized software.

1988

Revenue growth in 1988 primarily resulted from an increase in ACD and telemarketing sales. Sales of these products increased from $19.4 million in 1987 to $45.5 million in 1988. Sales increases were centered mostly in the United Kingdom as a result of a focused effort to develop applications expertise in this market niche. U.S. revenue in 1988 declined 20% from 1987 due primarily to the delayed introduction of industry standard products, such as the 80386-based processors, the 7950, 7800 and 7700.

Profitability increased in 1988 as a result of a product mix including a greater percentage of higher margined ACD and telemarketing products, and the reduction in operating expenses resulting from the 1987 restructuring.

1987

The overall decline in 1987 revenue was due to decreased U.S. volume and reduced U.S. pricing. Foreign revenue was favorably impacted during 1987 by a weakening U.S. dollar. On a local currency basis, foreign subsidiary revenue declined slightly from 1986, with increases in service revenue offsetting a decline in sales revenue.

The loss for 1987 includes $56.8 million of special charges related to a restructuring These charges include fixed asset writedowns of $19.2 million, employee severance accruals of $12.7 million, inventory provisions of $11.8 million, office closing accruals of $6.4 million and other charges of $6.7 million. Excluding the impact of these charges and credits, the gross profit margin for 1987 was comparable to 1986.

PRO FORMA FINANCIAL STATEMENTS

The accompanying pro forma financial statements were prepared by management to separately identify restructuring charges and other non-recurring items which are presented under the caption "Restructuring Charges". As a result, adjustments were made to the audited income statement to remove these charges from specific line items.

The regional financial statements are based on a distributor transfer price, which is the price at which the Company sells products to its independent distributors. The Company has in the past maintained an internal accounting system which calculates subsidiary profits based on San Antonio standard manufacturing cost. However, management believes that the presentation structure used herein more accurately reflects the subsidiaries' operating results.

Management believes this presentation format to more accurately reflect the subsidiaries' contribution to operating margin than the method used for internal reporting purposes. These numbers are not, however, audited, nor are they intended to substitute for the reader's own investigation.

CONSOLIDATED
PRO FORMA INCOME STATEMENT
($ in Thousands)

	1986	1987	1988	1989	First 6 Months 1989	First 6 Months 1990
REVENUE						
Recurring:						
Field Engineering	$75,772	$90,877	$98,622	$89,765	$45,202	$41,975
Systems Engineering	7,648	10,580	12,400	15,344	7,814	9,382
Lease	29,306	18,809	13,030	9,237	4,836	3,458
Total Recurring	112,726	120,266	124,052	114,346	57,852	54,815
Non-Recurring						
Hardware Sale	191,710	174,288	182,237	170,665	84,520	61,768
Software	5,022	6,321	10,310	15,314	8,129	7,616
Consumables	6,989	8,911	13,194	11,423	7,279	3,231
Conversions	8,780	2,304	1,034	742	282	201
Total Non-recurring	212,501	191,824	206,775	198,144	100,210	72,816
TOTAL REVENUE	325,227	312,090	330,827	312,490	158,062	127,631
GROSS PROFIT						
Recurring:						
Field Engineering	22,916	37,705	38,878	34,144	17,019	16,777
Systems Engineering	(5,775)	(4,653)	(5,034)	(2,759)	(1,069)	94
Lease	24,139	15,463	10,901	7,616	4,313	2,437
Total Recurring	41,280	48,515	44,745	38,971	20,263	19,308
Non-Recurring						
Hardware Sale	105,797	88,831	98,156	83,228	42,857	31,529
Software	2,228	2,636	3,628	1,939	2,013	1,037
Consumables	1,989	1,019	3,755	4,727	3,029	957
Conversions	7,446	2,134	675	473	169	112
Other	(9,086)	(8,367)	(5,068)	(9,785)	(3,506)	(3,794)
Total Non-recurring	108,374	86,253	101,146	80,582	44,562	29,841
TOTAL GROSS PROFIT	149,654	134,768	145,891	119,553	64,825	49,149
Product Development Expense	22,633	14,857	11,633	10,715		
General & Administrative Expense	26,304	23,000	18,746	14,829		
Selling Expense	102,593	100,004	100,517	102,959		
SAT Adjustments	0	0	0	0		
Total Operating Expense	151,530	137,861	130,896	128,503	63,559	52,367
Operating Income Before Restructuring	(1,876)	(3,093)	14,995	(8,950)	1,266	(3,218)
Restructuring Charges	0	(56,826)	0	(11,059)	0	(7,437)
Operating Income	(1,876)	(59,919)	14,995	(20,009)	1,266	(10,655)
Interest Income	1,492	13,427	4,794	3,339	6,110	(7,175)
Interest Expense	(9,823)	(10,500)	(10,845)	(12,091)	(5,710)	(6,044)
Other Income (Expense)	2,775	2,421	3,706	192	(70)	(1,660)
Technical Service	0	0	0	0	0	0
Foreign Exchange Gain (Loss)	31	288	0	(57)	434	1
Profit Before Tax	(7,401)	(54,283)	12,650	(28,626)	2,030	(25,533)
Tax Expense	(8,004)	(4,203)	(8,367)	(955)	(1,090)	(1,644)
Net Income	($15,405)	($58,486)	$4,283	($29,581)	$940	($27,177)

CONSOLIDATED
PRO FORMA BALANCE SHEET
($ in Thousands)

	1986	1987	1988	1989	First 6 Months 1990
ASSETS					
Cash	$69,218	$85,447	$66,008	$62,484	$41,983
Accounts Receivable	84,894	81,430	80,452	67,765	63,514
Interco Receivables	0	0	0	0	2,512
Inventory	63,664	45,648	45,623	28,987	27,380
Prepaids/Other	5,315	5,203	5,362	4,250	3,297
Total Current Assets	223,091	217,728	197,445	163,486	138,686
Net PP&E	60,863	45,307	44,510	37,898	37,343
Capitalized Software	9,192	14,251	21,198	18,205	17,016
Net Lease Base	6,471	4,721	3,568	3,129	2,273
Spares	10,729	8,312	9,542	6,792	6,125
Other	108,875	114,316	111,154	100,493	103,315
Total Assets	$419,221	$404,635	$387,417	$330,003	$304,758
LIABILITIES & EQUITY					
Accounts Payable	$22,202	$20,210	$19,804	$19,153	$16,164
Interco Payable	0	0	0	0	0
Income Taxes Payable	5,657	4,634	7,251	5,279	3,903
Accrued Expenses	41,476	74,977	48,729	41,693	41,361
Other Current Liabilities	9,604	13,093	12,397	9,389	8,878
Short Term Debt	7,366	8,575	31,734	30,802	33,084
Total Current Liabilities	86,305	121,489	119,915	106,316	103,390
Deferred Taxes	1,465	1,145	3,553	7,395	8,137
Payable to Banks	98,186	100,107	81,765	81,213	73,597
Total Liabilities	185,956	222,741	205,233	194,924	185,124
Equity	233,265	181,894	182,184	135,079	119,634
Total Liabilities & Equity	$419,221	$404,635	$387,417	$330,003	$304,758

CONSOLIDATED
PRO FORMA CASH FLOW
($ in Thousands)

SOURCES/(USES)	1987	1988	1989	First 6 Months Ended
Net Income	($58,486)	$4,283	($29,581)	($27,177)
Net Change in Working Capital:				
Accounts Receivable	3,464	978	12,687	4,251
Interco Receivables	0	0	0	(2,512)
Inventory	18,016	25	16,636	1,607
Prepaids/Other	112	(159)	1,112	953
Accounts Payable	(1,992)	(406)	(651)	(2,989)
Interco Payable	0	0	0	0
Income Taxes Payable	(1,023)	2,617	(1,972)	(1,376)
Accrued Expenses	33,501	(26,248)	(7,036)	(332)
Other Current Liabilities	3,489	(696)	(3,008)	(511)
Total Change in W.C.	55,567	(23,889)	17,768	(909)
Depreciation/Writeoffs				
Net PP&E	25,885	10,595	9,701	
Capitalized Software	6,949	3,682	10,594	
Net Lease Base	6,949	2,309	2,382	
Spares	7,667	4,568	4,815	
Total Depreciation	47,450	21,154	27,492	10,688
Additions				
Net PP&E	(10,329)	(9,798)	(3,089)	
Capitalized Software	(12,008)	(10,629)	(7,601)	
Net Lease Base	(5,199)	(1,156)	(1,943)	
Spares	(5,250)	(5,798)	(2,065)	
	(32,786)	(27,381)	(14,698)	(7,421)
Short Term Debt	1,209	23,159	(932)	2,282
Payable to Banks	1,921	(18,342)	(552)	(7,616)
Deferred Taxes	(320)	2,408	3,842	742
Other Assets	(5,441)	3,162	10,661	(2,822)
Net Cash from Operations	9,114	(15,446)	14,000	(32,233)
(Dividend) Receipt to HQ	7,115	(3,993)	(17,524)	11,732
Change in Cash Balance	$16,229	($19,439)	($3,524)	($20,501)

TOTAL EUROPEAN
PRO FORMA INCOME STATEMENT
($ in Thousands)

	1986	1987	1988	1989	First 6 Months 1989	First 6 Months 1990
REVENUE						
Recurring:						
Field Engineering	$58,169	$71,457	$78,349	$72,037	$37,053	$34,903
Systems Engineering	7,064	9,789	11,359	14,074	6,343	7,725
Lease	7,013	6,961	5,954	5,197	2,501	2,334
Total Recurring	72,246	88,207	95,662	91,308	45,897	44,962
Non-Recurring						
Hardware Sale	95,122	100,063	119,624	117,998	54,818	45,411
Software	669	3,371	6,978	8,038	3,785	4,157
Consumables	6,012	5,887	6,677	5,924	3,135	2,310
Conversions	1,556	394	490	440	219	157
Total Non-recurring	103,359	109,715	133,769	132,400	61,957	52,035
TOTAL REVENUE	175,605	197,922	229,431	223,708	107,854	96,997
GROSS PROFIT						
Recurring:						
Field Engineering	17,203	28,711	29,179	27,603	14,612	14,702
Systems Engineering	(5,276)	(4,457)	(4,774)	(2,494)	(1,397)	(665)
Lease	5,802	5,827	5,075	4,090	1,980	1,758
Total Recurring	17,729	30,081	29,480	29,199	15,195	15,795
Non-Recurring						
Hardware Sale	34,579	40,057	49,751	47,159	20,478	19,365
Software	357	1,779	4,563	1,960	2,034	1,687
Consumables	1,948	1,653	2,492	2,063	1,052	812
Conversions	1,492	468	251	204	111	69
Other	(992)	(849)	(148)	(1,372)	(282)	(577)
Total Non-recurring	37,384	43,108	56,909	50,014	23,393	21,356
TOTAL GROSS PROFIT	55,113	73,189	86,389	79,213	38,588	37,151
Product Development Expense	211	0	599	1,454		
General & Administrative Expense	11,660	16,546	17,592	18,006		
Selling Expense	29,428	29,982	37,228	36,406		
SAT Adjustments	0	0	0	350		
Total Operating Expense	41,299	46,528	55,419	56,216	27,085	27,390
Operating Income Before Restructuring	13,815	26,661	30,970	22,997	11,503	9,761
Restructuring Charges	0	(7,836)	0	(7,452)	0	0
Operating Income	13,815	18,825	30,970	15,545	11,503	9,761
Interest Income	812	689	885	364	0	0
Interest Expense	(723)	(706)	(993)	(2,513)	(718)	(862)
Other Income (Expense)	119	(948)	(830)	(282)	0	201
Technical Service	0	(2,953)	(2,277)	(1,937)	(987)	(835)
Foreign Exchange Gain (Loss)	1,384	536	30	(55)	12	53
Profit Before Tax	15,406	15,443	27,785	11,122	9,810	8,318
Tax Expense	(3,412)	(2,690)	(2,275)	(214)	(713)	(1,099)
Net Income	$11,994	$12,753	$25,510	$10,908	$9,097	$7,2

TOTAL EUROPEAN
PRO FORMA BALANCE SHEET
($ in Thousands)

	1986	1987	1988	1989	First 6 Months 1990
ASSETS					
Cash	$18,026	$18,283	$18,501	$9,673	$7,738
Accounts Receivable	40,877	45,045	50,652	46,805	50,970
Interco Receivables	6,170	5,311	4,676	1,000	2,054
Inventory	12,883	14,989	14,668	12,344	8,287
Prepaids/Other	3,440	3,544	4,461	3,608	2,699
Total Current Assets	81,396	87,172	92,958	73,430	71,748
Net PP&E	17,024	18,836	17,410	11,513	10,758
Capitalized Software	0	1,715	3,978	1,895	1,666
Net Lease Base	3,403	3,312	2,803	2,397	1,595
Spares	3,934	4,057	3,689	3,064	3,374
Other	715	693	929	7,706	7,248
Total Assets	$106,472	$115,785	$121,767	$100,005	$96,389
LIABILITIES & EQUITY					
Accounts Payable	$22,775	$20,021	$24,588	$23,050	$9,353
Interco Payable	20,007	11,460	8,841	4,876	2,768
Income Taxes Payable	8,569	11,699	15,050	11,071	3,348
Accrued Expenses	4,670	11,920	10,107	8,581	25,125
Other Current Liabilities	5,036	7,669	5,418	4,781	6,470
Short Term Debt	6,413	7,341	14,332	8,899	7,340
Total Current Liabilities	67,470	70,110	78,336	61,258	54,404
Deferred Taxes	1,266	843	839	4,632	8,294
Payable to Banks	1,550	1,751	1,394	970	1,072
Total Liabilities	70,286	72,704	80,569	66,860	63,770
Equity	36,186	43,081	41,198	33,145	32,619
Total Liabilities & Equity	$106,472	$115,785	$121,767	$100,005	$96,389

TOTAL EUROPEAN
PRO FORMA CASH FLOW
($ In Thousands)

	1987	1988	1989	First 6 Months 1990
SOURCES/(USES)				
Net Income	$12,753	$25,510	$10,908	$7,219
Net Change in Working Capital:				
Accounts Receivable	(4,168)	(5,607)	3,847	(4,165)
Interco Receivables	859	635	3,676	(1,054)
Inventory	(2,106)	321	2,324	4,057
Prepaids/Other	(104)	(917)	853	909
Accounts Payable	(2,754)	4,567	(1,538)	(13,697)
Interco Payable	(8,547)	(2,619)	(3,965)	(2,108)
Income Taxes Payable	3,130	3,351	(3,979)	(7,723)
Accrued Expenses	7,250	(1,813)	(1,526)	16,544
Other Current Liabilities	2,633	(2,251)	(637)	1,689
Total Change in W.C.	(3,807)	(4,333)	(945)	(5,548)
Depreciation/Writeoffs				
Net PP&E	8,627	8,088	5,596	
Capitalized Software	30	453	3,152	
Net Lease Base	2,365	2,126	1,941	
Spares	2,611	2,829	2,563	
Total Depreciation	13,633	13,496	13,252	6,025
Additions				
Net PP&E	(10,439)	(6,662)	301	
Capitalized Software	(1,745)	(2,716)	(1,069)	
Net Lease Base	(2,274)	(1,617)	(1,535)	
Spares	(2,734)	(2,461)	(1,938)	
	(17,192)	(13,456)	(4,241)	(4,549)
Short Term Debt	928	6,991	(5,433)	(1,559)
Payable to Banks	201	(357)	(424)	102
Deferred Taxes	(423)	(4)	3,793	3,662
Other Assets	22	(236)	(6,777)	458
Net Cash from Operations	6,115	27,611	10,133	5,810
(Dividend) Receipt to HQ	(5,858)	(27,393)	(18,961)	(7,745)
Change in Cash Balance	$257	$218	($8,828)	($1,935)

ASIA/PACIFIC
PRO FORMA INCOME STATEMENT
($ in Thousands)

	1986	1987	1988	1989	First 6 Months 1989	First 6 Months 1990
REVENUE						
Recurring:						
Field Engineering	$7,970	$8,380	$9,596	$9,254	$4,702	$4,130
Systems Engineering	410	580	688	866	559	385
Lease	8	136	146	237	129	99
Total Recurring	8,388	9,096	10,430	10,357	5,390	4,614
Non-Recurring						
Hardware Sale	21,844	19,324	19,696	18,293	9,572	6,295
Software	1,216	763	1,141	754	403	525
Consumables	0	774	685	543	305	191
Conversions	0	0	0	0	0	0
Total Non-recurring	23,060	20,861	21,522	19,590	10,280	7,011
TOTAL REVENUE	31,448	29,957	31,952	29,947	15,670	11,625
GROSS PROFIT						
Recurring:						
Field Engineering	2,246	3,424	3,757	3,119	1,537	1,307
Systems Engineering	(511)	29	(35)	(56)	2	(100)
Lease	4	114	122	186	110	81
Total Recurring	1,739	3,567	3,844	3,249	1,649	1,288
Non-Recurring						
Hardware Sale	9,145	7,915	8,989	8,221	4,505	2,605
Software	48	237	735	528	140	265
Consumables	0	27	73	237	63	22
Conversions	0	0	0	0	0	0
Other	92	(92)	9	(368)	(249)	(27)
Total Non-recurring	9,285	8,087	9,806	8,618	4,459	2,865
TOTAL GROSS PROFIT	11,024	11,654	13,650	11,867	6,108	4,153
Product Development Expense	0	0	164	391		
General & Administrative Expense	1,679	1,964	2,149	2,457		
Selling Expense	4,675	4,259	5,745	5,025		
SAT Adjustments	0	0	0	0		
Total Operating Expense	6,354	6,223	8,058	7,873	4,850	3,567
Operating Income Before Restructuring	4,670	5,431	5,592	3,994	1,258	586
Restructuring Charges	0	(1,000)	0	(231)	0	0
Operating Income	4,670	4,431	5,592	3,763	1,258	586
Interest Income	70	105	139	212	0	0
Interest Expense	(142)	(315)	(239)	(299)	(143)	(163)
Other Income (Expense)	0	0	(524)	(408)	0	121
Technical Service	0	(535)	(429)	(301)	(147)	(114)
Foreign Exchange Gain (Loss)	(15)	1	(49)	20	(1)	(2)
Profit Before Tax	4,583	3,687	4,490	2,987	967	428
Tax Expense	(8)	(292)	(914)	(90)	0	(80)
Net Income	$4,575	$3,395	$3,576	$2,897	$967	$348

ASIA/PACIFIC
PRO FORMA BALANCE SHEET
($ in Thousands)

	1986	1987	1988	1989	First 6 Months 1990
ASSETS					
Cash	$5	$515	$3,269	$2,530	$628
Accounts Receivable	4,668	6,300	4,731	3,189	4,119
Interco Receivables	95	23	75	304	325
Inventory	1,882	1,831	2,429	1,346	1,186
Prepaids/Other	195	211	150	218	183
Total Current Assets	6,845	8,880	10,654	7,587	6,441
Net PP&E	1,445	1,288	1,816	1,280	985
Capitalized Software	0	0	0	26	23
Net Lease Base	0	41	42	108	65
Spares	757	561	658	492	459
Other	13	22	27	0	47
Total Assets	$9,060	$10,792	$13,197	$9,493	$8,020
LIABILITIES & EQUITY					
Accounts Payable	$1,865	$2,357	$1,830	$1,611	$404
Interco Payable	2,101	2,850	1,498	657	287
Income Taxes Payable	161	44	793	225	134
Accrued Expenses	329	610	665	547	1,281
Other Current Liabilities	956	936	745	1,006	1,251
Short Term Debt	1,086	1,395	3,646	1,557	1,589
Total Current Liabilities	6,498	8,192	9,177	5,603	4,946
Deferred Taxes	72	234	0	64	287
Payable to Banks	0	0	0	0	0
Total Liabilities	6,570	8,426	9,177	5,667	5,233
Equity	2,490	2,366	4,020	3,826	2,787
Total Liabilities & Equity	$9,060	$10,792	$13,197	$9,493	$8,020

ASIA/PACIFIC
PRO FORMA CASH FLOW
($ in Thousands)

	1987	1988	1989	First 6 Months 1990
SOURCES/(USES)				
Net Income	$3,395	$3,576	$2,897	$348
Net Change in Working Capital:				
Accounts Receivable	(1,632)	1,569	1,542	(930)
Interco Receivables	72	(52)	(229)	(21)
Inventory	51	(598)	1,083	160
Prepaids/Other	(16)	61	(68)	35
Accounts Payable	492	(527)	(219)	(1,207)
Interco Payable	749	(1,352)	(841)	(370)
Income Taxes Payable	(117)	749	(568)	(91)
Accrued Expenses	281	55	(118)	734
Other Current Liabilities	(20)	(191)	261	245
Total Change in W.C.	(140)	(286)	843	(1,445)
Depreciation/Writeoffs				
Net PP&E	697	786	747	
Capitalized Software	0	0	26	
Net Lease Base	41	31	46	
Spares	431	271	398	
Total Depreciation	1,169	1,088	1,217	224
Additions				
Net PP&E	(540)	(1,314)	(211)	
Capitalized Software	0	0	(52)	
Net Lease Base	(82)	(32)	(112)	
Spares	(235)	(368)	(232)	
	(857)	(1,714)	(607)	150
Short Term Debt	309	2,251	(2,089)	32
Payable to Banks	0	0	0	0
Deferred Taxes	162	(234)	64	223
Other Assets	(9)	(5)	27	(47)
Net Cash from Operations	4,029	4,676	2,352	(515)
(Dividend) Receipt to HQ	(3,519)	(1,922)	(3,091)	(1,387)
Change in Cash Balance	$510	$2,754	($739)	($1,902)

NORTH AMERICA
PRO FORMA INCOME STATEMENT
($ in Thousands)

	1986	1987	1988	1989	First 6 Months 1989	First 6 Months 1990
REVENUE						
Recurring:						
Field Engineering	$9,633	$11,040	$10,677	$8,474	$3,447	$2,941
Systems Engineering	174	211	353	404	912	1,272
Lease	22,285	11,712	6,930	3,803	2,206	1,025
Total Recurring	32,092	22,963	17,960	12,681	6,565	5,238
Non-Recurring						
Hardware Sale	71,018	51,707	41,011	33,925	19,880	9,623
Software	3,137	2,000	1,934	5,581	3,328	2,208
Consumables	977	2,250	5,832	4,956	3,839	730
Conversions	7,224	1,910	544	302	63	44
Total Non-recurring	82,356	57,867	49,321	44,764	27,110	12,605
TOTAL REVENUE	114,448	80,830	67,281	57,445	33,675	17,843
GROSS PROFIT						
Recurring:						
Field Engineering	2,775	6,019	5,553	3,359	902	768
Systems Engineering	12	(225)	(225)	(239)	642	1,128
Lease	18,333	9,522	5,704	3,340	2,237	598
Total Recurring	21,120	15,316	11,032	6,460	3,781	2,494
Non-Recurring						
Hardware Sale	36,771	24,177	17,949	14,704	9,185	4,7[illegible]
Software	1,823	759	1,078	2,761	1,633	1,155
Consumables	41	(661)	1,190	2,427	1,914	123
Conversions	5,954	1,666	424	269	58	43
Other	(146)	(12)	(48)	(229)	(84)	0
Total Non-recurring	44,443	25,929	20,593	19,932	12,706	6,097
TOTAL GROSS PROFIT	65,563	41,245	31,625	26,392	16,487	8,591
Product Development Expense	0	310	0	(28)		
General & Administrative Expense	15,208	10,911	7,714	6,442		
Selling Expense	50,818	36,921	26,263	24,035		
SAT Adjustments	0	0	0	0		
Total Operating Expense	66,026	48,142	33,977	30,449	14,963	10,826
Operating Income Before Restructuring	(463)	(6,897)	(2,352)	(4,057)	1,524	(2,235)
Restructuring Charges	0	(1,023)	0	(370)	0	(730)
Operating Income	(463)	(7,920)	(2,352)	(4,427)	1,524	(2,965)
Interest Income	(11)	13	6	4	0	0
Interest Expense	16	(75)	(195)	(286)	(117)	(215)
Other Income (Expense)	708	356	(91)	(10)	41	55
Technical Service	0	(595)	(435)	(215)	(111)	0
Foreign Exchange Gain (Loss)	(9)	(29)	(15)	(22)	(16)	(7)
Profit Before Tax	241	(8,250)	(3,082)	(4,956)	1,321	(3,132)
Tax Expense	0	0	0	0	0	0
Net Income	$241	($8,250)	($3,082)	($4,956)	$1,321	($3,132)

NORTH AMERICAN
PRO FORMA BALANCE SHEET
($ in Thousands)

	1986	1987	1988	1989	First 6 Months 1990
ASSETS					
Cash	$239	$599	$692	$3	$1,032
Accounts Receivable	23,705	22,014	16,183	9,815	6,152
Interco Receivables	54	82	39	381	133
Inventory	2,970	1,317	1,764	1,380	1,078
Prepaids/Other	406	225	205	243	147
Total Current Assets	27,374	24,237	18,883	11,822	8,542
Net PP&E	6,687	4,729	5,998	5,222	4,432
Capitalized Software	0	46	74	205	161
Net Lease Base	4,582	2,738	1,819	1,621	614
Spares	1,251	1,207	1,075	1,075	914
Other	648	574	582	211	64
Total Assets	$40,542	$33,531	$28,431	$20,156	$14,727
LIABILITIES & EQUITY					
Accounts Payable	$475	$676	$1,029	$861	($4,560)
Interco Payable	1,953	2,246	429	640	4,770
Income Taxes Payable	247	187	130	76	0
Accrued Expenses	4,178	3,055	1,903	1,940	3,085
Other Current Liabilities	2,721	1,909	1,780	1,654	1,131
Short Term Debt	0	789	2,474	3,033	0
Total Current Liabilities	9,574	8,862	7,745	8,204	4,426
Deferred Taxes	0	44	162	121	4,872
Payable to Banks	0	0	0	0	0
Total Liabilities	9,574	8,906	7,907	8,325	9,298
Equity	30,968	24,625	20,524	11,831	5,429
Total Liabilities & Equity	$40,542	$33,531	$28,431	$20,156	$14,727

NORTH AMERICA
PRO FORMA CASH FLOW
($ in Thousands)

	1987	1988	1989	First 6 Months 1990
SOURCES/(USES)				
Net Income	($8,250)	($3,082)	($4,956)	($3,132)
Net Change in Working Capital:				
Accounts Receivable	1,691	5,831	6,368	3,663
Interco Receivables	(28)	43	(342)	248
Inventory	1,653	(447)	384	302
Prepaids/Other	181	20	(38)	96
Accounts Payable	201	353	(168)	(5,421)
Interco Payable	293	(1,817)	211	4,130
Income Taxes Payable	(60)	(57)	(54)	(76)
Accrued Expenses	(1,123)	(1,152)	37	1,145
Other Current Liabilities	(812)	(129)	(126)	(523)
Total Change in W.C.	1,996	2,645	6,272	3,564
Depreciation/Writeoffs				
Net PP&E	848	807	590	
Capitalized Software	2	21	62	
Net Lease Base	318	293	411	
Spares	701	736	612	
Total Depreciation	1,869	1,857	1,675	2,276
Additions				
Net PP&E	1,110	(2,076)	186	
Capitalized Software	(48)	(49)	(193)	
Net Lease Base	1,526	626	(213)	
Spares	(657)	(604)	(612)	
	1,931	(2,103)	(832)	(274)
Short Term Debt	789	1,685	559	(3,033)
Payable to Banks	0	0	0	0
Deferred Taxes	44	118	(41)	4,751
Other Assets	74	(8)	371	147
Net Cash from Operations	(1,547)	1,112	3,048	4,299
(Dividend) Receipt to HQ	1,907	(1,019)	(3,737)	(3,270)
Change in Cash Balance	$360	$93	($689)	$1,029

SAN ANTONIO
PRO FORMA INCOME STATEMENT
($ in Thousands)

	1986	1987	1988	1989	First 6 Months 1989	First 6 Months 1990
REVENUE						
Recurring:						
Field Engineering	$0	$0	$0	$0	$0	$1
Systems Engineering	0	0	0	0	0	0
Lease	0	0	0	0	0	0
Total Recurring	0	0	0	0	0	1
Non-Recurring						
Hardware Sale	3,726	3,194	1,906	449	250	439
Software	0	187	257	941	613	726
Consumables	0	0	0	0	0	0
Conversions	0	0	0	0	0	0
Total Non-recurring	3,726	3,381	2,163	1,390	863	1,165
TOTAL REVENUE	3,726	3,381	2,163	1,390	863	1,166
GROSS PROFIT						
Recurring:						
Field Engineering	692	(449)	389	63	(32)	0
Systems Engineering	0	0	0	0	(316)	(269)
Lease	0	0	0	0	(14)	0
Total Recurring	692	(449)	389	63	(362)	(269)
Non-Recurring						
Hardware Sale	25,302	16,682	21,467	13,144	8,689	4,783
Software	0	(139)	(2,748)	(3,310)	(1,794)	(2,070)
Consumables	0	0	0	0	0	0
Conversions	0	0	0	0	0	0
Other	(8,040)	(7,414)	(4,881)	(7,816)	(2,891)	(3,190)
Total Non-recurring	17,262	9,129	13,838	2,018	4,004	(477)
TOTAL GROSS PROFIT	17,954	8,680	14,227	2,081	3,642	(746)
Product Development Expense	22,422	14,547	10,870	8,898		
General & Administrative Expense	(2,243)	(6,421)	(8,709)	(12,076)		
Selling Expense	17,672	28,842	31,281	37,493		
SAT Adjustments	0	0	0	(350)		
Total Operating Expense	37,851	36,968	33,442	33,915	16,661	10,584
Operating Income Before Restructuring	(19,897)	(28,288)	(19,215)	(31,884)	(13,019)	(11,330)
Restructuring Charges	0	(46,967)	0	(3,006)	0	(6,707)
Operating Income	(19,897)	(75,255)	(19,215)	(34,890)	(13,019)	(18,037)
Interest Income	621	12,620	3,764	2,759	6,110	(7,175)
Interest Expense	(8,974)	(9,404)	(9,418)	(8,993)	(4,732)	(4,804)
Other Income (Expense)	1,948	3,013	5,151	892	(111)	(2,037)
Technical Service	0	4,083	3,141	2,453	1,245	949
Foreign Exchange Gain (Loss)	(1,329)	(220)	34	0	439	(43)
Profit Before Tax	(27,631)	(65,163)	(16,543)	(37,779)	(10,068)	(31,147)
Tax Expense	(4,584)	(1,221)	(5,178)	(651)	(377)	(465)
Net Income	($32,215)	($66,384)	($21,721)	($38,430)	($10,445)	($31,612)

SAN ANTONIO
PRO FORMA BALANCE SHEET
($ in Thousands)

	1986	1987	1988	1989	First 6 Months 1990
ASSETS					
Cash	$50,948	$66,050	$43,546	$50,278	$32,585
Accounts Receivable	15,644	8,071	8,886	7,956	2,273
Interco Receivables	(6,319)	(5,416)	(4,790)	(1,685)	0
Inventory	45,929	27,511	26,762	13,917	16,829
Prepaids/Other	1,274	1,223	546	181	268
Total Current Assets	107,476	97,439	74,950	70,647	51,955
Net PP&E	35,707	20,454	19,286	19,883	21,168
Capitalized Software	9,192	12,490	17,146	16,079	15,166
Net Lease Base	(1,514)	(1,370)	(1,096)	(997)	(1)
Spares	4,787	2,487	4,120	2,161	1,378
Other	107,499	113,027	109,616	92,576	95,956
Total Assets	$263,147	$244,527	$224,022	$200,349	$185,622
LIABILITIES & EQUITY					
Accounts Payable	($2,913)	($2,844)	($7,643)	($6,369)	$10,967
Interco Payable	(24,061)	(16,556)	(10,768)	(6,173)	(7,825)
Income Taxes Payable	(3,320)	(7,296)	(8,722)	(6,093)	421
Accrued Expenses	32,299	59,392	36,054	30,625	11,870
Other Current Liabilities	891	2,579	4,454	1,948	26
Short Term Debt	(133)	(950)	11,282	17,313	24,155
Total Current Liabilities	2,763	34,325	24,657	31,251	39,614
Deferred Taxes	127	24	2,552	2,578	(5,316)
Payable to Banks	96,636	98,356	80,371	80,243	72,525
Total Liabilities	99,526	132,705	107,580	114,072	106,823
Equity	163,621	111,822	116,442	86,277	78,799
Total Liabilities & Equity	$263,147	$244,527	$224,022	$200,349	$185,622

SAN ANTONIO
PRO FORMA CASH FLOW
($ in Thousands)

	1987	1988	1989	First 6 Months 1990
SOURCES/(USES)				
Net Income	($66,384)	($21,721)	($38,430)	($31,612)
Net Change in Working Capital:				
Accounts Receivable	7,573	(815)	930	5,683
Interco Receivables	(903)	(626)	(3,105)	(1,685)
Inventory	18,418	749	12,845	(2,912)
Prepaids/Other	51	677	365	(87)
Accounts Payable	69	(4,799)	1,274	17,336
Interco Payable	7,505	5,788	4,595	(1,652)
Income Taxes Payable	(3,976)	(1,426)	2,629	6,514
Accrued Expenses	27,093	(23,338)	(5,429)	(18,755)
Other Current Liabilities	1,688	1,875	(2,506)	(1,922)
Total Change in W.C.	57,518	(21,915)	11,598	2,520
Depreciation/Writeoffs				
Net PP&E	15,713	914	2,768	
Capitalized Software	6,917	3,208	7,354	
Net Lease Base	4,225	(141)	(16)	
Spares	3,924	732	1,242	
Total Depreciation	30,779	4,713	11,348	2,163
Additions				
Net PP&E	(460)	254	(3,365)	
Capitalized Software	(10,215)	(7,864)	(6,287)	
Net Lease Base	(4,369)	(133)	(83)	
Spares	(1,624)	(2,365)	717	
	(16,668)	(10,108)	(9,018)	(2,748)
Short Term Debt	(817)	12,232	6,031	6,842
Payable to Banks	1,720	(17,985)	(128)	(7,718)
Deferred Taxes	(103)	2,528	26	(7,894)
Other Assets	(5,528)	3,411	17,040	(3,380)
Net Cash from Operations	517	(48,845)	(1,533)	(41,827)
(Dividend) Receipt to HQ	14,585	26,341	8,265	24,134
Change in Cash Balance	$15,102	($22,504)	$6,732	($17,693)

ARCNET Attracts Dispersed Data Processing Customers

Before Datapoint invented the ARCNET local network, the company pioneered the concept of dispersed data processing in the '70s. Dispersed data processing was a way of distributing computer power among a number of small, efficient microcomputers on desktops. This reduced the strain on a customer's mainframe, brought computers out of the special "clean rooms" of the time, and placed them where they were needed in the workplace.

With ARCNET, Datapoint perfected distributed data processing by adding interconnectivity between the individual computer processors in the distributed environment. Distributed data processing put computer power where it was needed in the workplace; ARCNET allowed the dispersed processors to share information and computing resources.

Since the roots of the ARCNET network lie in distributed data processing (DDP), it is only natural that the first applications were either in existing customer sites already employing DDP or in new sites just catching on to the then-revolutionary concept of data processing on the desktop. In the early annals of ARCNET, DDP was the "name of the game" that this technology allowed Datapoint customers to play. Just two of the interesting stories from this time are Hyatt Hotels of Burlingame, California, and International Travel Service of Chicago.

Hyatt Hotel Chain Linked by Nationwide Network of Datapoint Systems

Burlingame, California, 1979—Hyatt Corporation, one of the most innovative and fastest growing hotel chains in America, is using sophisticated Datapoint dispersed data processing systems within its nationwide hotel network both to provide on-site data processing capabilities and group sales and reservation data and as a reliable communications link with the Hyatt corporate headquarters in Rosemont, Illinois. This network has enabled Hyatt to substantially reduce the cost of its entire data processing operation, begin a phase-out of its mainframe-supported data processing center in Burlingame, California, improve overall employee productivity, and provide top-level management with up-to-date information on their total operations.

Hyatt, which began operations in 1957 with its first "airport hotel" at Los Angeles International Airport, now has 51 hotels with over 25,000 rooms, located in 42 cities in 22 states and the District of Columbia. Ten others are in various stages of planning or construction.

Along with its phenomenal growth in units, as well as increased geographic dispersion, came a need for a communications system for operational data, compatible business strategies, and an information management system that would ensure total coordination of effort.

In 1971 Hyatt established a data processing center in its corporate offices in Burlingame, California, near the center of its growth pattern. This mainframe-configured data processing center used the batch-mode system to serve its local hotels.

Growth Spurs Data Processing Needs

As Hyatt's growth continued and the time utilized for keypunching and courier deliveries from user to mainframe to user became too great to produce meaningful reports, Hyatt began looking for terminal-type data capture machines for remote job entry. They wanted to eliminate at least the time-consuming and error-prone keypunching task and replace it with floppy disk or cassette data recording.

In 1972, after careful consideration of all available equipment within their criteria range, Hyatt's data processing department decided upon two Datapoint 2200 business processors with dual cassettes. This equipment had utility software and peripheral hardware that allowed the two systems to "talk" to each other or to a mainframe, and it could be leased, which was unique.

Total System Utilizes Both DATASHARE and ARCNET

From the two Datapoint 2200s Hyatt leased in 1972, their data process-

ng system has grown to be one of the most complete and versatile within the hotel industry. Today, Hyatt's dispersed data processing network employs ten Datapoint DATASHARE' systems and four Datapoint ARCNET local area networks.

More Growth—More Needs

Bob Regan, VP/MIS, states, "Our individual hotels continued to grow and develop a need for their own data processing with on-line capabilities. We here at Hyatt corporate headquarters also had a real need for our programmers to be able to sit at a terminal and do their complete program development—editing, compiling, and testing—without wasting their efforts vying for time on a mainframe or waiting for their compile listings or test results from some remote printer. As soon as Datapoint announced their ARCNET system, we ordered. In fact, we pushed Datapoint for delivery and installation because we'd been waiting for it for a long time."

ARCNET System Installed

Hyatt now has four Datapoint ARCNET systems installed: one in Omaha, used for "national sales"; one in Rosemont, used primarily for software development; one in the Southern California complex of eight hotels, with the central processors located in the Los Angeles Airport Hyatt Hotel; and one in the Burlingame Data Center, serving seven hotels in the northern California area. These areas have been operating as normal DATASHARE environments.

Hyatt's basic ARCNET configurations consist of one Datapoint 6600 advanced business processor and two Datapoint 6000 attached processors.

Mainframe Shutdown Scheduled

"Our plans for the future," notes Regan, "are that our hotels will not be sending any data at all to Burlingame. This, of course, will be a phased-in conversion to complete minicomputer-based DATASHARE and ARCNET systems. We have completed two applications already. Accounts receivable and general ledger are now totally in-house on the minicomputer. We are now rewriting accounts payable, which is scheduled for completion by mid-year '79, and the payroll system should be implemented by last quarter '79 or first quarter '80. At that time we will completely shut down the mainframe-configured data processing center in Burlingame."

Regan explains, "All along, the biggest advantage of ARC has been the availability of its software. It's always there; the compilers, the communications, the utilities. Datapoint showed excellent forethought in their anticipation of ARCNET utilization and its potential for varied and meaningful applications. ARCNET's software has made it work for us so easily. Its internal—as well as external—communications abilities are its strongest points. We have been able to totally automate our national sales function, which tracks available room space and the performance history of convention groups."

ARCNET Crosses Ocean with Realtors Aboard

Chicago, Illinois, 1979—International Travel Service (ITS) of Chicago, one of the largest agencies in the travel business, handled over 80,000 bookings in its wholesale, group-convention, and incentive divisions during 1978. ITS has grown from 5,000 bookings in 1971 to 30,000 in 1975 to over 65,000 in 1977, when its sales were over $20 million and its commission income exceeded $1.5 million. To manage this ever-increasing day-to-day workload without hiring great numbers of additional employees, ITS installed Datapoint Corporation's ARCNET system.

ITS made use of the tremendous data processing capabilities of the ARCNET system to control and coordinate the movement of over 25,000 members of the National Association of Realtors® (NAR) to Hawaii during their 71st Annual Convention in November '78. This may have been the largest convention ever held in Honolulu.

Around 6,000 people arrived daily during the three-to-four-day period in November.

International Travel Service with its ARCNET system handled convention registration and air reservations for NAR members from their homes or group travel points to Honolulu and return; hotel reservations; special events; analytical demographic information required by NAR concerning its conventioneers; tours to the Orient, Australia, the South Pacific; and over 200 separate tours around the Hawaiian Islands.

ITS also issued name badges, furnished the data needed to produce preprinted rosters of participants, and provided individual detailed confirmations, personalized itineraries, and, as a final item, issued individual

detailed invoices of all expenses with tax deductible business expenses itemized separately.

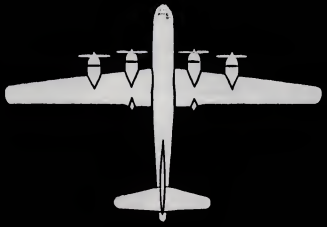
The pre-convention processing and during-convention workload was gigantic in itself and the only way all the bills, invoices, charges, and other related paperwork could be processed and all the details kept under control was the sophisticated data processing possible with ARCNET. This functionally dispersed system enabled ITS to optimize flights and accommodations for best rates and scheduling.

Thousands of Tickets

According to Ed Harris, Director of Administration at ITS, "Perhaps the *coup de maitre* (master stroke) of the whole task associated with the NAR Convention was the issuance of the airline tickets. Approximately 30,000 tickets were issued and each ticket could hold a maximum of four legs—four departures and four arrivals—of the trip. Many itineraries required second and third ticket attachments; some as many as six. Our great strength in this program was that ARCNET allowed us to wait until about three weeks prior to the convention and then issue all the tickets at once. This was about a twenty-four hour job for ARCNET. With the manual methods previously used it would have taken several months."

ARCNET Becomes the Key to the "Integrated Electronic Office"

By the early 1980s, the triplet of vowels "I", "E", and "O" would become as famous in the history of local area networking as "A", "R", and "C". IEO stands for the Integrated Electronic Office™—a new concept in computing which Datapoint introduced and announced to the marketplace in November 1979. Integrated Electronic Office systems—starting with word processing and electronic mail, but ultimately embracing many other office applications—were overlaid on top of the dispersed data processing functions already supported by ARCNET. Thus, having confronted and penetrated the dispersed data processing marketplace with ARCNET, Datapoint now turned the technology's flexibility and resource-sharing capability to the untapped marketplace of the '80s—the office.



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New Operating Software Enhances ARCNET

In November 1980, Datapoint introduced a new operating system which significantly enhanced the functionality of an ARCNET system. As it still does today, the RMS (Resource Management System) operating system allowed processors on the ARCNET to "borrow" power from one another when a particular program required memory or instructions that it didn't have at hand. The RMS software's shared-capability feature allowed "non-intelligent" terminals to perform every task supported by the software. Whatever memory, processors, data, or other resources were necessary could be allocated to the terminals by the RMS software and reclaimed when the job was completed.

The RMS operating system brought even more flexibility and efficiency to ARCNET. Geared to provide economical incremental growth on the network, RMS ensured that this growth could occur without constant and expensive reprogramming. It's easy to understand how RMS drew new customers to ARCNET and motivated existing customers to expand their networks.

Students Acquire Computer Expertise in Texas Schools

Houston, Texas, 1986—When the Texas legislature amended high school graduation requirements, making one year of computer study mandatory for all college-bound high school students, one Texas school district was prepared. The Humble District, located in Humble, Texas, a suburb of Houston, had already made an agreement with Datapoint to install two Datapoint ARCNET networks supporting approximately 25 processors and 107 workstations in computer labs at Humble and Kingwood high schools.

Dr. Jimmy Lewis, coordinator of technology for the Humble Independent School District, said that Datapoint was chosen primarily because of the modular growth path provided by the ARCNET. "It's important for school districts to be able to add equipment in small increments because of budgetary constraints. With the ARCNET we can economically upgrade our system as the need arises," he stated.

At Humble High School, Datapoint computers are now used to teach Computer Math I. With desktop terminals, students learn how to write computer programs using Datapoint's Resource Management System (RMS) BASIC language to solve mathematical problems. Mathematics teacher Loweta Jorgensen said that students study consumer math, geometry, and algebra. "The experience they are getting is valuable and realistic," she added. "So many of the students are accustomed to using personal computers at home. Here, they learn what computers are really like in the business world."

Dr. Lewis said that he is currently surveying students to help plan what computer courses should be added to the school's curriculum. "We are trying to find out what subjects the students would like to take. Courses in word processing and business math are likely possibilities," he stated.

Other possible applications include maintaining a database of the scores of over 16,000 students on state-required examinations. Each school in the district would use a Datapoint terminal to transfer test results to the central ARCNET via microwave links.

The flexibility of the ARCNET is one of its key strengths. As the Humble School District has found, this flexibility carries over into new and creative applications.

Orthopaedic Hospital Prescribes Local Network For Information Management

Los Angeles, California, 1985—Today's hospitals are in the throes of change. Increased competition and copious government regulation demand cost containment. Hospitals must lower costs without sacrificing the quality of health-care. To meet the challenge of difficult times, the modern hospital must make the best possible use of its most important resource: information. If not a

panacea for all that troubles today's healthcare institutions, efficient and economical information management is at least a pathway to more cost-effective operations.

Four years ago, Orthopaedic Hospital of Los Angeles, California, depended entirely upon an IBM mainframe for in-house data processing. The mainframe system performed a number of crucial financial applications but could not keep pace with the hospital's growing information management needs. Orthopaedic Hospital determined that the system would have to be expanded to accommodate any additional applications and that solution was found to be prohibitively expensive. "Our expansion path was to trade in a box and buy a bigger one," explains Donald McDavid, director of data processing. Orthopaedic Hospital began to consider alternatives. "We were looking for a more economical building-block approach," says McDavid. "We wanted to add applications without having to trade in our system."

A tour of a nearby hospital with a Datapoint installation prompted McDavid to consider a Datapoint ARCNET local area network for Orthopaedic Hospital. The ARCNET satisfied McDavid's most important criterion: the modular design of the network ensured easy and economical growth. Additionally, the Datapoint equipment offered compatibility with the hospital's IBM computer.

Orthopaedic Hospital's original ARCNET network consisted of fifteen computer workstations and terminals. The hospital also purchased a processor with diskette media, which enabled batch mode communications with the IBM mainframe.

The First Step: An ADT System

With customized software provided by American Medical Systems of Pasadena, California, Orthopaedic Hospital set about modernizing its operations. The first application implemented on the Datapoint equipment was an Admissions, Discharge, and Transfer, or ADT, system, which tracks the progress of each patient from the moment he or she enters the hospital. The ADT system assigns each patient a permanent medical record number, which remains the same for all subsequent visits.

Orthopaedic Hospital's ARCNET has grown, as has the number of applications it supports. The hospital now maintains a network of more than fifty workstations running under both of the Datapoint proprietary operating systems, the Resource Management System (RMS) and the Disk Operating System (DOS). Most of the computer workstations running under RMS are used for office applications. According to McDavid, Orthopaedic Hospital has achieved a new level of efficiency with the Datapoint VISTA-WORD™ word processing software, and future plans include the implementation of VISTA-MAIL™ electronic mail software.

This innovative office automation software is of particular value to the hospital's public relations department, which maintains one processor and two workstations in its offices. Also participating in the ARCNET network under the RMS operating system is the Los Angeles Orthopaedic Foundation, which solicits funds for the hospital. The network manages approximately 80,000 prospective donor files. Multiplan® and word processing capabilities enable foundation workers to perform donor-tracking and donation solicitation with many times the speed and efficiency of the older, manual system.

"Customizing

ARCNET

From a customer-appli on standpoint, one of the most valu ctures of the ARCNET is its adapt ty to a wide range of specialized so are packages. In the ten years since CNET was invented, Datapoint pr mers have created many suc ckages that are especially designed am on ARCNET systems. In a tion, ARCNET systems have le cmselves to creative software p grams developed by both major s are houses and Datapoint's net k of affiliated software represen ves. The following ARCNET ap a-tions stories arise from just h fruitful mergers of Datapo local area networking solut and specialized software progra ing.

- file size up to the total capacity of all local disk resources or 4,000MB, whichever is smaller;
- advanced tool kit for applications development; and
- network service for MS-DOS and SVID (System V Interface Definition)/ System V.3 UNIX operating systems; and
- support of industry-standard high-level languages, such as Micro-Focus COBOL, C, and DATABUS.

Multiple Operating System Support

With ARCNET Personal Computer Network Services™ (PCNS™), your PS/2 Model 80, Datapoint 7700, or other high-performance-processor-based small system can provide shared MS-DOS file support to other PCs on the ARCNET network. And interconnectivity with Datapoint's DX™-series of System V Network Server Systems provides access to UNIX applications.

A Single, Interactive Cabling Solution

Take advantage of Datapoint's unique and innovative ARC VCS I/O cabling scheme. With ARC VCS, configure your systems' asynchronous terminals and peripherals with more flexibility than ever before. With direct connections to the ARCNET network through point-of-use-adapters (POUAs) — no dedicated processor support is required — your alternatives are almost limitless. You get lower interconnect cost, increased performance, and more efficient use of networked processing resources.

A Lap Ahead of the Competition

The Datapoint RMS and RMS/XA network management system was designed from the ground up to be an advanced network operating system. So, when you need a multi-user, multi-threaded, multi-tasking network management system, with a consistent user interface and much more, you need RMS/XA. Because Datapoint's leading the race and lapping the competition.

DATAPOINT

7700 PROCESSOR SYSTEM

FEATURE HIGHLIGHTS

- Industry-standard bus architecture
- Consistent network management and application environment
- Low-cost, entry-level network server for distributed processing environments
- Smooth growth path
- Innovative direct terminal and peripheral support
- Transparent connectivity: multiple vendors' systems, multiple operating systems, public and private data networks, other LANs
- A network machine — integral ARCNET power
- System resources and applications can be available transparently to MS-DOS PCs
- Networked or standalone configuration
- Co-packaged storage peripherals

FUNCTIONAL CHARACTERISTICS AND PRODUCT DATA

PROCESSOR CHARACTERISTICS

Internal Bus

Type	8MHz PC/AT bus	Memory
Address Transfer	24-bit	32-bit
Data Transfer	8/16-bit	32-bit

CPU

Type	16MHz Intel 80386
Word Length	32-bit
Instruction Set	Intel 80386, 80286, 8086 Datapoint 8600

Memory Module

Size	4MB
Organization	Interleaved
Minimum/Maximum	1 to 4

STORAGE CHARACTERISTICS

79MB Fixed Disk

Average Access Time	18.5 milliseconds
Rotational Latency	8.3 milliseconds
Form Factor	5 1/4 in
Interface	Asynchronous SCSI

142MB Fixed Disk

Average Access Time	18.5 milliseconds
Rotational Latency	8.3 milliseconds
Form Factor	5 1/4 in
Interface	Asynchronous SCSI

150MB Cartridge Tape Drive

Tape Speed	90 in per second
Data Transfer Rate	112.5KB per second
Rewind Time	80 seconds max
Image Backup Time (142MB)	23 minutes
Tape Cartridge Type	High-density 1/4 in
Form Factor	5 1/4 in (half high)
Interface	Asynchronous SCSI

1.44MB Floppy Disk Drive (option)

Interface/Format	Industry-standard
Form Factor	3 1/2 in

Configurations

Total Number of Devices	2 to 4
Number of Tape/Floppy Drives	2 max
Number of Disk Drives	2 max
Maximum Disk Storage Capacity	284MB

I/O CHARACTERISTICS

ARCNET® (Attached Resource Computer®) Interface Module

Minimum/Maximum	1 to 2 ARCNET modules
Ports per Module	1 ARCNET network
Transfer Rate per Port	2.5Mb per second

SCSI I/O Channel Adapter Module

Protocol	Asynchronous SCSI
Number of Modules	1
Number of SCSI Addresses per Module	1 to 7
Transfer Rate	1.5MB per second

System Console

Keyboard	Datapoint Model 7391
Video Display	14 in (35.6 cm) diagonal Amber phosphor

PHYSICAL CHARACTERISTICS

Equipment Dimensions

Processor Enclosure	
Width 21 in (52.9 cm)	Height 6.1 in (15.5 cm)
Depth 16.3 in (41.4 cm)	Weight 40 lb (18.1 kg)
Monitor	
Width 13 in (33.0 cm)	Height 13.9 in (35.3 cm)
Depth 13.9 in (35.3 cm)	Weight 18.9 lb (8.6 kg)

Power Requirements (Processor Enclosure)

115/230 VAC, 3.7/1.9 amp

Power Consumption

240 watts max

Environment

50 to 100°F ambient temperature
10 to 38°C ambient temperature
20 to 80 percent relative humidity, non-condensing
26°C max wet bulb temperature

Heat Dissipation

819 Btu/hr max

Product Safety

IEC 380
UL 478
CSA STD C22.2 No. 154
VDE 806

Electromagnetic Compatibility

FCC class A limits of part 15 subpart J
VDE 871

SYSTEM REQUIREMENTS

Software

RMS®/XA (Resource Management System®/ Extended Architecture) operating system version 4 or later

MODEL CODES

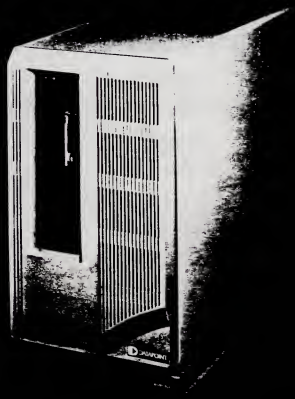
7710 processor: 4MB memory, 79MB disk, 150MB tape, ARCNET module, EGA
7720 processor: 8MB memory, 142MB disk, 150MB tape, ARCNET module, EGA

DATAPOINT

Datapoint Corporation • 9725 Datapoint Drive • San Antonio, Texas 78284-2097 • Telephone: (512) 699-7000 • Telex: 767300

DATAPOINT

7800 MULTI-PROCESSOR SYSTEM



FEATURE HIGHLIGHTS

- Symmetrical, tightly-coupled dual-processor system
- Transparent connectivity: multiple vendors' systems, multiple operating systems, public and private data networks, other LANs
- A network machine — integral ARCNET power
- Does more work — simultaneous execution of tasks like interactive and batch processing
- Dedicated co-processor for I/O operation
- Innovative direct terminal and peripheral support
- Smooth system expansion path for processors, memory, and peripherals
- Consistent network management and application environment
- Standalone or networked configuration
- Co-packaged storage peripherals

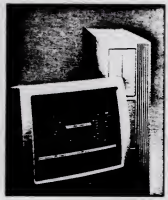
A Consistent Operating Environment

is consistent across the RMS/XA product continuum. When your user community grows or your applications processing requirements increase, add processing power as you need it. Investment protection for the customer is the Datapoint way of doing business.

- **surprising price-performance value** — see for yourself.

A Consistent Operating Environment

The Datapoint RMS/XA operating environment manages the operational differences among processors dynamically and transparently. So, RMS/XA supports an impressive breadth of execution vehicles — standalone or networked — from a PS/2 Model 80 all the way up to a large, 300-user Datapoint departmental system. The business environment varies; the execution vehicle varies; but the application environment is consistent.



Grow Your System Easily

You can grow your RMS/XA-based system easily in either direction. Add a PS/2 Model 80 or a Datapoint 7700 to an existing RMS/XA installation as an additional low-end data resource processor or applications processor. Or, begin with the PS/2 or 7700 and move up incrementally as your business needs dictate. RMS/XA provides binary compatibility to protect your software investment as user loads, application environments, or performance requirements change. RMS/XA applications readily migrate from high-performance PC-class systems to Datapoint's largest multiprocessors, featuring closely-coupled symmetric 32-bit technology with multi-user, multi-tasking capability.

A Full Three-Tier Solution

RMS/XA provides a three-tier systems solution:

- from a desktop PC
- to any size departmental system,
- with gateways and connectivity from your desk to
  - -mainframes,
  - -public and private data networks, and
  - -computing environments of multiple kinds.

Datapoint's flexible and extensive suite of communications and connectivity products ensure transparent multi-level, multi-vendor interfaces via convenient, cost-effective network communications servers.

Even More Than the Promise

Datapoint brings more today to meet the network management challenge than has been promised by others for tomorrow.

The RMS/XA network management system offers:

- advanced, modular design, specifically oriented toward local area networking over the ARCNET® (Attached Resource Computer®) network today, as well as other market-standard protocols in the future;
- multi-tasking, multi-processing, multi-user operation; and
- support of very-high-performance 32-bit microprocessor technology.

RMS/XA also incorporates advanced features, such as:

- application-to-application program communication;
- multi-level security;
- multiple password file and catalog security;
- high-speed terminal, printer, and peripherals support (RS-232 and Centronics) via ARC® VCS (Virtual Circuit Services) input/output (I/O) cabling scheme;
- disk caching;
- RAM disk support; and
- disk mirroring for fault-resistant storage.

The RMS/XA network management system offers the following features, too:

- large memory module;
- native instruction set implementation;
- customizable, consistent user interface across all hardware systems and user applications, which means many applications require little or no training to use;
- high-performance utilities;
- transparent physical and logical resource sharing for memory, disks, communications, and printing;
- up to 16MB of memory on PS/2 Model 80- and Datapoint 7000-class processors—shattering the 640K memory barrier (up to 128MB of memory on larger processors);

DATAPOINT

RMS/XA NETWORK MANAGEMENT SYSTEM

Tomorrow's Network Management Power
...on Small Systems
...Today

Local Area Network Management—Not Just File Sharing—for Small Systems

If you want a true multi-tasking, multi-processing, multi-user local area network environment that

- accommodates change with incremental growth;
- provides an easy-to-use system interface;
- supports extensive networking and communications in business computing and data processing environments of all sizes;
- is efficient; and
- can improve your productivity,

look to Datapoint.

The Datapoint® RMS®/XA (Resource Management System®/Extended Architecture) network management system brings you excitement, capability, and stability in one dynamic operating environment—today.

The Functionality You Need

Datapoint's RMS/XA offers end-user and network management system features *today* that surpass the hoped-for capabilities of OS/2. Now, RMS/XA brings you the functionality you need most, even for your advanced-technology PC:

- **multi-tasking and windows**—up to eight fully-active applications running concurrently; and they're not just "pictures on the wall," because you can access them all in windows or in full-screen mode at the touch of a key. Ideal for the interrupt-driven work environment of today's business.
- **multi-user and network-oriented**—transparent, full resource-sharing capabilities. Not just file exchange, but network-managed resources, from processing pow to peripherals.
- **consistent user interface**—available across all applications, even user-developed. An easily-customized menu with online help, instructions, and built-in file management capabilities make using your system and learning new applications a breeze.
- **rich applications environment**—languages, multi-vendor connectivity, communications, electronic messaging, DBMS, editors, utilities, tools, spreadsheets, office automation, and much more.
- **easy migration path and incremental growth**—effortless upgrades, because the operating environme

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Document No. 16-2396-001

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support a broad range of data processing and office automation applications. Among these are word processing, Multiplan, order entry, payroll, accounting, personnel, and manufacturing.

ARCNET

Comes of Age

June 1984 was a momentous month in ARCNET history not only because of the PRO-VISTA announcement, but also because of the announcement of a major new strategy to open the proprietary technology of the network to industry-standard technology. Now the products of other vendors could take advantage of the resource-sharing and flexibility of the ARCNET network. Thus, the technology had truly come of age by being the first and most widely used network on the market and now by embracing a new customer base of non-Datapoint equipment. Befitting the venerable status ARCNET had earned by 1984, our technology's "Hall of Fame" in the mid '80s becomes a sweeping saga of major customers, large installations, vital and sometimes unusual applications.

An example of an extremely vital application served by ARCNET occurs in France. The "Electricite de France," the French national power company, employs ARCNET networks in its nineteen nuclear plants. With the nuclear incidents at Chernobyl and Three Mile Island in mind, the French prudently harness the power of ARCNET to generate pre[illegible]ive maintenance orders at each pl[illegible] 24 hours a day and 365 days a ye[illegible]. Also in the category of vital applic[illegible]s, ARCNET is the local area net[illegible]k of choice in over 16 percent of th[illegible]spitals in the Netherlands. By ha[illegible]g a myriad of routine administrat[illegible]unctions, the ARCNET saves tim[illegible] that most important function of a [illegible]tal —saving lives.

In the category of unusu[illegible]lications, ARCNET can be found [illegible]ing the salt-brine and waves of the [illegible]d's oceans, where an English oil ba[illegible]as it "on-board" to keep track of [illegible]s and personnel. The Spanish Mi[illegible]ries of Industry and Labor and the [illegible]an "Carabinieri" (National Police [illegible]rust their vital defense and security [illegible]ctions to ARCNET systems. T[illegible] the "Reflections on ARCNET" ar[illegible]any and varied—as our final applic[illegible]n stories from the worlds of bus[illegible]s, government and industry reve[illegible]

An ARCNET Anniversary; A Major Thrust into the OA Marketplace

In 1983, Datapoint reached a significant milestone in the history of ARCNET. In May of that year—not quite 15 years after the company was founded in 1968—the company celebrated the 5,000th Datapoint ARCNET installation.

The customer which provided this landmark event was the Medical College of Georgia. Founded in 1828, the Medical College of Georgia is one of the oldest medical schools in the U.S. When installed, the college's ARCNET network included 20 processors, 20 terminals, 25 printers, and 120MB of on-line storage. It was used for the maintenance of an on-line database to track clinical, surgical, and demographic data on patients treated by the Departments of Medicine and Surgery.

The Medical College of Georgia's reasons for choosing the ARCNET local area network to handle these important applications were three-fold, according to a college spokesperson. "ARCNET has done everything Datapoint claimed that it would do," he said, explaining: "It allowed us to move computing power out of the mainframe and put it within reach of the various users, it provided us with multifunctional processors, and it answered our communication needs."

Datapoint celebrated the Medical College of Georgia installation as the 5,000th enthusiastic endorsement of its local area network. As a company spokesperson said at the time: "Datapoint did not install 5,000 local area networks by selling future possibilities. The market has recognized ARCNET as the proven leader in sophistication and reliability. We at Datapoint take a great deal of pride in this. And our customers, current and future, can be assured of continued technological innovations from Datapoint."

In fact, Datapoint engineers were already making good on that promise by laying the groundwork for a set of hardware and software products that introduced new innovations to the company's office automation offering. The PRO-VISTA™ products—forerunners of today's Datapoint VISTA-OFFICE™ solutions—combined state-of-the-art applications processors with enhanced OA software to provide the most significant office automation concept introduced by any vendor in years. The combination of the first and most sophisticated networking solution with this new OA capability attracted many customers. Four of these customers: Bayvet (a division of Miles Laboratories), the Australian Prime Minister's Office, Citibank Canada, and the National Roads Motorists Association of Australia won top honors in office automation competitions spanning four consecutive years. Datapoint's "Quadruple Crown of Office Automation" is a "lan-mark" event in the ten years of ARCNET.

Canada Makes It Three! Datapoint Sweeps Office Automation Awards

San Antonio, Texas, 1985—Datapoint recently scored a coup in the highly competitive office automation (OA) marketplace when two of its major Canadian customers were awarded gold and silver awards in the 1985 Canadian OA Awards. This is the third year in a row that a Datapoint customer has won a prestigious award based on the quality and ingenuity of its Datapoint-manufactured and designed OA systems.

Citibank Canada and McMillan Binch, one of Toronto's leading law firms, were the respective gold and silver award recipients of a national contest sponsored by *Canadian Office* magazine. In 1984, Datapoint's installation at the Australian Prime Minister and Cabinet won the country's Information Technology Award. The year before that, Bayvet Pharmaceutical Company of Shawnee, Kansas (a division of Miles Laboratories), took the top 1983 award for OA presented by *Office Administration and Automation* magazine.

Citibank Canada

Citibank's systems communications capability counted heavily in the judges' decision. Through Datapoint's ARCNET, Citibank is able to connect several different types of equipment at its Toronto site, including Datapoint workstations, other vendors' mainframes, personal computers, and printers, plus offer access to several computerized information services such as Infoglobe and Dow Jones. One outstanding example of this communications capability is the user's ability to log onto any of fifty different computers located around the world, including Hong Kong, London, and Buenos Aires.

McMillan Binch

The McMillan Binch installation, winner of the Canadian 1985 silver award, is "one of the pioneering efforts in legal office automation," according to a proud Datapoint spokesperson. At the heart of the system is a Datapoint ARCNET local area network supporting 105 workstations, as well as other devices including an OCR (optical character reader) and a Datapoint Call Detail Recorder (located between the PBX and the local area network). Twenty of the Datapoint terminals are attached to the PBX and, according to the judges, it is the combined use of the ARCNET and the PBX which puts this installation at the forefront of OA technology.

The system's AIM (Associative Index Method) capability allows the firm to automatically scan a computerized library of legal cases to find precedents to support various stands on litigation. Corporate profiles can also be automatically scanned to gather financial information and to cross-check various clients to prevent conflict of interest. Because McMillan Binch is one of the largest law firms in Canada, this AIM capability is especially important.

One of the most satisfying aspects of this account has been the adoption of the system by the lawyers themselves. As a Datapoint spokesperson reflected: "Of course in any legal office you expect an OA system to be a word processing workhorse for the secretaries and paralegals, but this system has also become a real professional tool for the lawyers, who use the VISTA-AGENDA™ calendaring capability and automatically enter the amount of professional time they spend on each client."

The Australian Prime Minister's Office

In the Australian coup—awarded to the Office of the Prime Minister in Canberra, Australia, in December 1984—the strength of Datapoint's ARCNET and its advanced RMS (Resource Management System) operating system were the keys to Datapoint's success in obtaining this prestigious award. According to the director of advanced data processing for the department: "We were surprised to find just how effective the Datapoint ARCNET was in meeting our original expectations; at its security, its redundancy, and its ability to expand easily. The other suppliers were unable to match its capabilities."

The network consists of approximately 100 multifunctional workstations and 20 processors extending between two wings of a building, each wing having seven floors. The technology has been applied to the major document management requirements of the government organization, which receives 400,000 items of correspondence each year addressed to the Prime Minister.

Bayvet Pharmaceutical: The First Crown

Beginning Datapoint's winning tradition, Bayvet Pharmaceutical won its gold OA award in 1983 based on the quality of the company's two ARCNETs, which run under the DOS and RMS operating systems. The ARCNET networks support a total of 21 desktop workstations and

financial systems and other mission-critical applications," said Don Bynum, vice president of worldwide marketing for Datapoint. "Within these industries, client/server transaction processing systems, for which ARCNET has proven well suited, are projected by Forrester Research Inc. to reach $29 billion by 1993," Bynum added. "Chip, board and system-level product designers can build evolutionary products for this growing marketplace using ARCNETplus. We are pleased to have NCR and SMC as our partners in this endeavor."

Preserves benefits of ARCNET, features interoperability

ARCNETplus technology provides greater than eight times the performance of the first-generation ARCNET. At the same time, ARCNETplus retains ARCNET's simplicity and reliability, low overhead, high system throughput, and ease of installation on all popular cabling.

ARCNETplus also offers interoperability with existing ARCNET installations by dynamically varying the data signaling rate, thereby supporting both ARCNET and ARCNETplus nodes on the same network. This interoperability preserves investments in hardware, software and operating procedures at the more than two million installed ARCNET connections worldwide and allows selective implementation throughout a large network.

NCR and SMC have signed technology agreements with Datapoint for designing,

manufacturing and marketing products based on the ARCNETplus technology (see accompanying news release), enhancing their long-standing commitment to ARCNET.

Speed, flexibility optimized for high-volume client/server networks

ARCNETplus boosts raw bit transfer rates by 25 percent as compared to 16Mbps Token Ring, previously the industry's fastest PC LAN technology, while increasing the maximum number of available nodes per network segment to 2,047.

ARCNETplus achieves a 20Mbps data rate and a maximum system throughput of 2,025Kbps (kilobytes per second) by dramatically streamlining the network packet overhead as compared to both first-generation ARCNET and competitive network alternatives.

ARCNETplus optimizes system performance by supporting packet sizes as small as 12.5 bytes and as large as 4,224 bytes. This wide packet-size variability allows reduced overhead in transaction-processing applications, while supporting rapid bulk-data transfers.

-30-

FUNCTIONAL CHARACTERISTICS AND PRODUCT DATA

PROCESSOR CHARACTERISTICS

Internal Transfer Bus

Transfer Rate	32MB per second
Address Transfer	28-bit
Data Transfer	32-bit
Transfer Protocol	Synchronous
Bus Connection	16 max

CPU/Cache Module

Type	20MHz Intel 80386
Word Length	32-bit
Minimum/Maximum	2 to 6 CPU/Cache modules
Memory	64KB system ROM 288KB private RAM
Cache Memory	32KB
Organization	4-way, set associative
Implementation	Write through
Instruction Sets	Intel 80386, 80286, 8086 Datapoint 8600
Serial Interface	For console and diagnostics
Microprocessor	8051
Protocol	Asynchronous, including Auto Answer

Memory Module

Size	16MB
Type	DRAM, ECC
Read Access	600 nanoseconds for 128 bits
Write Access	200 nanoseconds for 32 bits
Organization	4-way interleaved
Error Correction	Single-bit
Error Detection	Double-bit
Minimum/Maximum	16MB to 128MB

I/O CHARACTERISTICS

I/O Co-Processor

10 MHz RISC (reduced instruction set) engine

ARCNET® (Attached Resource Computer®) Interface Module

Minimum/Maximum	1 to 6 ARCNET modules
Ports per Module	2 ARCNET networks
Transfer Rate per Port	2.5Mb per second

SCSI I/O Channel Adapter Module

Protocol	Asynchronous differential/single
Minimum/Maximum	1 to 4 modules
Number of SCSI Addresses per Module	1 to 7
Transfer Rate	1.5MB per second

System Console (not included)

Keyboard	10 function keys 11 key numeric pad
Video Display	7.2 x 9.6 in viewing area 14 in (35.6 cm) diagonal Amber PBD phosphor characters on gray background
Interfaces	RS-232-C host interface RS-232-C printer interface RS-232-C modem interface

PHYSICIAL CHARACTERISTICS

Equipment Dimensions

Width 21.8 in (55.8 cm)	Height 36.0 in (92.3 cm)
Depth 36.0 in (92.3 cm)	Weight 268 lb (90.7 kg) max

Power Requirements

220/240 VAC single phase, 50/60 Hz ± 2 percent

Power Consumption

560 to 2142 watts

Environment

50 to 90°F ambient temperature
10 to 32°C ambient temperature
20 to 80 percent relative humidity, non-condensing

Heat Dissipation

1764 to 3463 Btu/hr max

Noise Level

Idle Mode	6.5 bels
Operating Mode	6.5 bels

Product Safety

IEC 380
UL 478
CSA STD C22.2 No. 154
VDE 806

Electromagnetic Compatibility

FCC Class A limits of part 15 subpart J
VDE 871

SYSTEM REQUIREMENTS

Software

RMS®/XA (Resource Management System®/ Extended Architecture) operating system version 4 or later

Hardware

8242 system console

MODEL CODES

7950	Multi-processor system
8242	System console

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ARCNETplus™

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ARCNETplus BECOMES THE HIGH-PERFORMANCE NETWORK TECHNOLOGY FOR PCs, WORKSTATIONS AND LAN SERVERS

DALLAS, September 12, 1989 -- Datapoint Corporation has introduced with NCR Microelectronic Products Division (NCR) and Standard Microsystems Corporation (SMC) the second generation technology of its popular ARCNET (Attached Resource Computer) local area network (LAN) at the NETWORLD conference here. ARCNETplus extends the capabilities of ARCNET and will increase data transfer rates to 20Mbps (megabits per second) for LANs using standard coaxial, twisted-pair or other popular wiring media.

Developed by Datapoint, ARCNETplus is targeted for use as a high-performance solution for networked personal computers, workstations and LAN servers. ARCNETplus brings this increased performance to existing ARCNET networks as well as new installations.

"ARCNETplus can provide a high-performance solution today, while addressing the demands of tomorrow's networks in manufacturing, banking,

-more-

FUNCTIONAL CHARACTERISTICS AND PRODUCT DATA

PROCESSOR CHARACTERISTICS

Internal Transfer Bus

Type	Dual, non-conflicting
Transfer Rate	21.33MB per second
Address Transfer	28-bit (each bus)
Data Transfer	32-bit (each bus)
Transfer Protocol	Synchronous

CPU Module

Type	16MHz Intel 80386
Word Length	32-bit
Memory	128KB system ROM 64KB private RAM
Instruction Set	Intel 80386, 80286, 8086 Datapoint 8600
Minimum/Maximum	1 to 2

Memory Module

Size	4MB
Type	Dual port
Access	187.5 nanoseconds (sequential, non-colliding)
Organization	4/8 way, interleaved
Minimum/Maximum	1 to 4

STORAGE CHARACTERISTICS

79MB Fixed Disk

Average Access Time	18.5 milliseconds
Rotational Latency	8.3 milliseconds
Form Factor	5 1/4 in
Interface	Asynchronous SCSI

142MB Fixed Disk

Average Access Time	18.5 milliseconds
Rotational Latency	8.3 milliseconds
Form Factor	5 1/4 in
Interface	Asynchronous SCSI

150MB Cartridge Tape Drive

Tape Speed	90 in per second
Data Transfer Rate	112.5KB per second
Rewind Time	80 seconds max
Image Backup Time (142MB)	23 minutes
Tape Cartridge Type	High-density 1/4 in
Form Factor	5 1/4 in
Interface	Asynchronous SCSI

Configurations

Total Number of Devices	0 to 4
Number of Tape Drives	2 max
Number of Disk Drives	4 max
Maximum Disk Storage Capacity	426MB with tape 568MB without tape

I/O CHARACTERISTICS

I/O Co-Processor

10MHz 80286

ARCNET® (Attached Resource Computer®) Interface Module

Minimum/Maximum	1 ARCNET module
Ports per Module	2 ARCNET networks
Transfer Rate per Port	2.5Mb per second

SCSI I/O Channel Adapter Module

Protocol	Asynchronous SCSI
Minimum/Maximum	1 module
Number of SCSI Addresses per Module	1 to 7
Transfer Rate	1.5MB per second

System Console (not included)

Video Display	7.2 x 9.6 in viewing area 14 in (35.6 cm) diagonal Amber PBD phosphor characters on gray background
Interface	ARCNET host interface RS-232-C printer interface

PHYSICIAL CHARACTERISTICS

Equipment Dimensions

Width	13.5 in (34.3 cm)	Height	24 in (61 cm)
Depth	32 in (81.3 cm)	Weight	140 lb (63.6 kg) max

Power Requirements

115/230 VAC, 8.0/4.0 amp

Power Consumption

920 watts max

Environment

50 to 100°F ambient temperature
10 to 38°C ambient temperature
20 to 80 percent relative humidity, non-condensing
26°C max wet bulb temperature

Heat Dissipation

3140 Btu/hr max

Noise Level

Idle Mode	6.5 bels
Operating Mode	7.0 bels

Product Safety

IEC 380
UL 478
CSA STD C22.2 No. 154
VDE 806

Electromagnetic Compatibility

FCC class A limits of part 15 subpart J
VDE 871

SYSTEM REQUIREMENTS

Software

RMS®/XA (Resource Management System®/ Extended Architecture) operating system version 4 or later

Hardware

System console

MODEL CODES

7800	Single-processor system
7810	Dual-processor system
7352	System console

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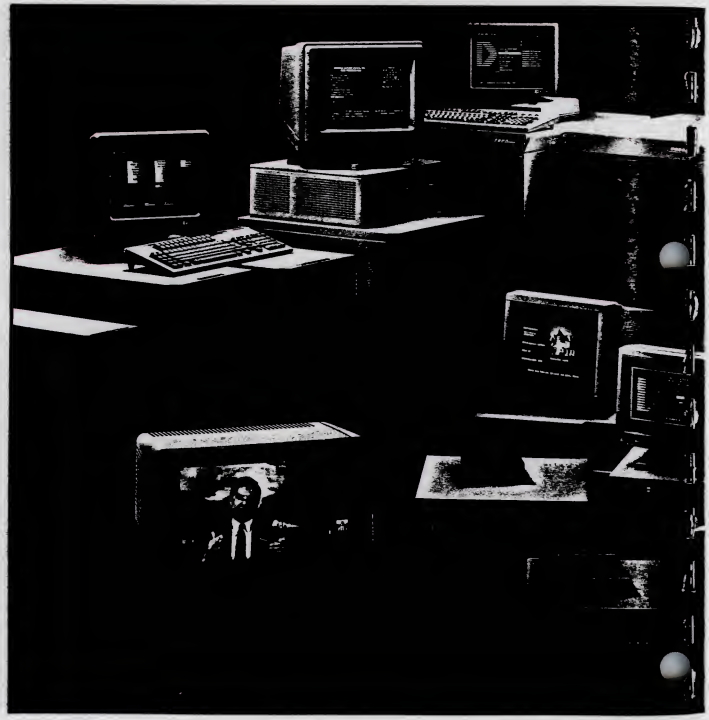
7950 MULTI-PROCESSOR SYSTEM

FEATURE HIGHLIGHTS

- Symmetrical, tightly-coupled multi-processor system
- Does more work — simultaneous execution of tasks like interactive and batch processing, network services, electronic mail system management, communications, file services, print services, file management, database management system services
- Innovative direct terminal and peripheral support
- Consistent environment for network management and applications
- A network machine — integral ARCNET power
- Dedicated RISC co-processor for each I/O adapter
- Extremely high capacity: up to 7.7 gigabytes of storage, up to 12 ARCNET local area networks, 128MB of memory, 6 CPUs
- Smooth system expansion path



(Extended Architecture) SMB (server message block) server software — for Datapoint's 7000-series high-performance servers — provides file, print, application, and communications service for IBM-compatible PC networks, and offers access to an extensive array of capabilities. DATALAN/XA integrates PC networking, based on industry-standard NETBIOS (network basic input/output system), with Datapoint's large-scale server technology. The result is to extend the capabilities of PC networks by providing high performance, high system reliability, data security, and software control. In addition, DATALAN/XA offers PC workstation users access to a broad range of network services and resources, such as SNA (System Network Architecture), OSI (Open Systems Interconnection), asynchronous communications, and the ORACLE® relational database management system.

Relational Database Management System: The ORACLE RDBMS for Datapoint systems was announced in fiscal 1988 and began shipment in fiscal 1989. With ORACLE, Datapoint customers can convert existing applications or implement new ones with a minimum of programming effort, and the results are portable across most vendors' computing platforms. Datapoint's multi-processor network servers, which readily support a large transaction load, are ideal multi-user database platforms and deliver an excellent price/performance solution when providing ORACLE services to PC clients.

PC Workstations: The markets targeted by the Company have embraced the personal computer, but have encountered two significant problem areas related to the traditional PC workstation. Concerns about data and software security, especially in financial services and government applications, have imposed expensive and complex data encryption and access mechanisms. Likewise, experience with maintenance of PC disk drives in critical applications has revealed high costs of ownership when compared with the "dumb" terminals traditionally used in high-volume production applications. In response to these problems, which are directly related to diskette drives and the portable media used with them, Datapoint has introduced a complete line of diskless PC-compatible workstations. These workstations range from a low-cost Intel 8088-based workstation to a state-of-the-art Intel 80386-based product supporting the latest innovations in graphics and performance. Predictably, the first orders for these products have come from the cost and security conscious financial services sector.

PREPARING FOR THE 1990s

Having identified our target markets, focused on a common technology trend in those markets, and developed the critical components for success, we are training our sales force and resellers to isolate specific customer needs and to configure solutions.

Fiscal year 1989 saw the beginning of the crucial transition of Datapoint. Our marketing changed from being product-centered to being focused on our target industry segments. Our products changed from being closed and proprietary to being open and based on industry standards. With its integration of standard networking, standard operating systems (MS-DOS and UNIX®) and standard communications protocols, Datapoint is ready for the 1990s.

FISCAL YEAR 1989 IN REVIEW

Datapoint Corporation began its third decade during fiscal year 1989. The worldwide business profile for Datapoint in 1989 is reflected in the chart below:

	PRINCIPAL MARKETS				
PRINCIPAL PRODUCTS	Financial Services	Distribution	Government	Manufacturing	Other*
Distributed Data Processing	•	•	•	•	•
Connectivity	•	•	•	•	•
Telecommunications					
Call Center Management	•	•	•		•
Video-Teleconferencing	•		•	•	•
Electronic Mail/TELEX	•		•	•	•
Applications	Insurance	Automobile Dealerships	Libraries	Flex-Time	Hotels Flex-Time

*served primarily through value-added resellers and international distributors

The Company has broad representation in major markets because it supplies a spectrum of computing products and capabilities that meet the complex needs of sophisticated customers and offer flexible options for growth and evolution.

The common threads through the diverse uses of the Company's products are expandability, high performance, and comprehensive system services — from system design through user training to ongoing technical support.

TARGETED INDUSTRY SEGMENTS

During fiscal year 1989, Datapoint sharpened its focus on four key industry segments: financial services, government, distribution, and manufacturing. Highlights from customers in these areas can be found in "Networking People," the narrative section of this annual report. As stated by our customers, the particular strengths of Datapoint systems that result in our success in these segments include:

- incremental systems growth that protects investments;
- high reliability and fault resilience;
- high transaction throughput;
- excellent database management capability;
- access to shared data and system resources;
- connectivity as an integral part of the solution; and
- applications expertise.

Significant sales occurred in each of these segments in most of Datapoint's geographic markets. While the Company is experiencing success in its target markets, we continue to identify changes in them which can create growth opportunities.

Market research shows that the transition to the so-called "client/server" model has begun in our target market segments. Client/server application models graft the power and security of mainframe and minicomputer environments onto the friendly, cost-competitive, user-oriented personal computer platform.

Frost & Sullivan forecasts that sales of client/server systems will grow at a compound annual rate of 83 percent to over $29 billion by 1993.* These systems, consisting of networked PC-compatible workstations and shared relational database management systems (RDBMS), are expected to be implemented in the near term by many participants in the financial services sector. Likewise, computer integrated manufacturing (CIM) and customer service systems, based upon the same networking/RDBMS/PC workstation technical platform, are expected to experience significant growth,** while sales into the traditional minicomputer and standalone PC markets stagnate.

In response to the long-range planning of the Company, Datapoint® Product Development has released a series of new products targeted to compete in the growth segments defined above, while extending the capabilities of existing Datapoint systems. (For a listing of products introduced in fiscal 1989, see Form 10-K filed with the U.S. Securities and Exchange Commission.)

NETWORKING/RELATIONAL DATABASE MANAGEMENT SYSTEMS/PC WORKSTATIONS

Networking: The DATALAN™ personal computer network operating system, introduced in September 1988, brings high-performance, industry-standard personal computer networking to the Datapoint product line. Introduced in June 1989, DATALAN/XA

Personal Computing, October 1989, p. 192B.
**Sierra Group, *Market Moves*, 1989.

Letter to Stockholders

The world around us is changing. Recognizing that change, Datapoint began more than five years ago to build a new product line incorporating industry-standard technology. Our customers have told us that this was the right direction, and, today, we are accelerating and expanding our commitment to this strategy.

The importance of providing products which are based on open architectures and which incorporate commodity components is even greater today, both for Datapoint and for other manufacturers. Purchasers are becoming increasingly sensitive to the market and less willing to be tied to specific vendors.

One of Datapoint's greatest and continuing strengths is our proficiency at integrating our own equipment and *de facto* industry standards — along with the systems and components of many other vendors — into unique networks of capabilities that cost-effectively meet and evolve with our customers' changing computing needs.

We continue to focus our efforts on standards and on enhancing the flexibility of our products. We are optimizing the impact of our resources, our people, and our strategic direction by maintaining our emphasis on cost-effectively serving our customers' needs. We will continue to integrate leading-edge technology, consistent with the vision of the future environment our customers are helping us to create.

In our current, increasingly competitive business environment, even those companies that are already perceived as "the standards" are troubled by disappointing financial results. While the financial results of our fiscal year 1989 are disappointing, they reflect actions that had to be taken to position the Company for the 1990s. We acknowledge change as a constant environment. Therefore, we are embracing the management of change within our culture, so that it works to our advantage. This demands that we continue to improve efficiency, to manage costs vigilantly, and to provide tools and develop environments to enhance productivity.

Datapoint continues to conduct its business across the United States and in more than forty countries around the world through its subsidiaries and a network of independent distributors. The Company's financial position is sound, and we continue to seek ways to achieve consistent profitability. That is our number one priority.

We continue to extend and refine our excellent product portfolio. We have a talented, experienced, dedicated team of employees, and each one of us is committed to the success, profitability, and future growth of the Company.

October 26, 1989

Asher B. Edelman
Chairman of the Board

Michael M. Michigami
President and Chief Executive Officer

Datapoint - 1989 (FY)

$ mm

	HW	Other	Total
"Data processing"	$153	$19	$172
Telecomm	33	17	50
Field Svc	–	90	90
Total	186	126	312

Datapoint 1990 FY (projected from first 6 mos)

$MM

	HW	Other	Total
Dataprocessing	$109e	$17e	$126
Telecomm	30e	15e	45
Field Svc	—	84	84
Total	139	116	255

e: split between dataprocessing & telecomm estimated

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FINAL

FORM 10-Q

QUARTERLY REPORT UNDER SECTION 13 OR 15(d)

OF THE SECURITIES EXCHANGE ACT OF 1934

(Mark One)

[X] Quarterly Report Pursuant To Section 13 Or 15(d) Of The Securities Exchange Act Of 1934
For the quarterly period ended January 27, 1990

OR

[ ] Transition Report Pursuant To Section 13 Or 15(d) Of The Securities Exchange Act Of 1934
For the transition period from _____ to _____

For Quarter Ended January 27, 1990 Commission file number 1-7636

DATAPOINT CORPORATION

(Exact name of registrant as specified in its charter)

Delaware	74-1605174
(State or other jurisdiction of incorporation or organization)	*(I.R.S. Employer Identification No.)*
9725 Datapoint Drive San Antonio, Texas	78229-8500
(Address of principal executive offices)	*(Zip Code)*

(512) 699-7000

(Registrant's telephone number, including area code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes X. No _____.

There were 10,118,190 shares outstanding, exclusive of 10,988,937 shares in Treasury, of the registrant's Common Stock, $.25 par value, as of the close of the period covered by this report.

DATAPOINT CORPORATION AND SUBSIDIARIES

INDEX

PART I. FINANCIAL INFORMATION

tem 1. Financial Statements
CONSOLIDATED BALANCE SHEETS
atapoint Corporation and Subsidiaries

(In thousands, except share data)

	(Unaudited) January 27, 1990	July 29, 1989
ssets		
Current assets:		
Cash and cash equivalents	$ 16,908	$ 22,166
Marketable securities, at market for FY 1990 and FY 1989 (cost of $6,092 and $18,915, respectively)	2,547	16,875
Restricted cash and marketable securities	22,528	23,443
Accounts receivable, net of allowance for doubtful accounts of $3,899 and $4,821, respectively	66,026	67,765
Inventories:		
Finished products	18,738	19,847
Work in process	2,556	2,540
Raw materials	6,086	6,600
Total inventories	27,380	28,987
Prepaid expenses and other current assets	3,297	4,250
Total current assets	138,686	163,486
ixed assets, net of accumulated depreciation of $140,982 and $131,384, respectively	45,741	47,819
xcess of cost of investment over net assets acquired, net of accumulated amortization of $21,062 and $19,730, respectively	88,638	85,010
apitalized software for resale, net	17,016	18,205
ther assets, net	14,677	15,483
	$ 304,758	$ 330,003
bilities and Stockholders' Equity		
rent liabilities:		
Payables to banks	$ 8,765	$ 9,481
Current maturities of long-term debt	21,300	21,321
Accounts payable	19,183	19,153
Accrued expenses	41,361	41,693
Deferred revenue	8,878	9,389
Income taxes payable	3,903	5,279
Total current liabilities	103,390	106,316
Long-term debt, exclusive of current maturities	73,597	81,213
Other liabilities	8,137	7,395
ommitments and contingencies	-	-
tockholders' equity:		
Preferred stock of $1.00 par value. Shares authorized 10,000,000; shares issued and outstanding 1,931,218	2,000	2,000
Common stock of $.25 par value. Shares authorized 40,000,000; shares issued and outstanding 10,118,190 and 10,115,759, respectively	5,276	5,275
Other capital	257,861	257,798
Foreign currency translation adjustment	8,591	(712)
Retained deficit	(52,502)	(27,677)
Treasury stock, at cost:		
Preferred stock, 68,782 shares	(1,455)	(1,455)
Common stock, 10,988,937 and 10,987,216 shares, respectively	(100,137)	(100,150)
Total stockholders' equity	119,634	135,079
	$ 304,758	$ 330,003

e accompanying notes to consolidated financial statements.

--NSC ATI TA NT OI TIO
Datapoint Corporation and Subsidiaries
(Unaudited)

(In thousands, except share data)

	Three Months Ended		Six Months Ended	
	January 27, 1990	January 28, 1989	January 27, 1990	January 28, 1989
Revenue:				
Sales	$ 39,194	$ 54,343	$ 72,967	$100,210
Service and lease	28,202	30,243	54,664	57,851
Total revenue	67,396	84,586	127,631	158,061
Cost of revenue:				
Sales	24,972	30,757	44,743	55,648
Service and lease	18,632	19,591	35,512	37,588
Total cost of revenue	43,604	50,348	80,255	93,236
Gross profit	23,792	34,238	47,376	64,825
Operating expenses:				
Research, development and engineering	2,351	2,476	4,616	5,018
Marketing and selling	23,550	27,727	47,618	52,058
General and administrative	2,970	3,260	5,797	6,482
Total operating expenses	28,871	33,463	58,031	63,558
Operating income (loss)	(5,079)	775	(10,655)	1,267
Non-operating income (expense):				
Investment income (expense)	(1,446)	492	(7,175)	6,110
Interest expense	(3,033)	(2,937)	(6,044)	(5,710)
Other, net	835	200	(1,659)	363
Income (loss) before income taxes and extraordinary items	(8,723)	(1,470)	(25,533)	2,030
Income taxes	951	653	1,644	2,952
Loss before extraordinary items	(9,674)	(2,123)	(27,177)	(922)
Extraordinary items:				
Gain on debt extinguishment	-	-	4,361	-
Utilization of tax loss carryforward	304	252	376	1,862
Net income (loss)	$(9,370)	$ (1,871)	$(22,440)	$ 940
Net income (loss), less preferred stock dividend	$(11,755)	$ (4,276)	$(27,210)	$ (3,869)
Loss per common share:				
Before extraordinary items	$(1.19)	$ (.44)	$(3.16)	$ (.57)
Extraordinary items	.03	.02	.47	.19
Net loss	$(1.16)	$ (.42)	$(2.69)	$ (.38)
Average common shares	10,120,190	10,074,127	10,119,882	10,069,723

See accompanying notes to consolidated financial statements.

CONSOLIDATED STATEMENTS OF CASH FLOWS
Datapoint Corporation and Subsidiaries
(Unaudited)

(In thousands)

	Six Months Ended January 27, 1990	Six Months Ended January 28, 1989
Cash flow provided from (used in) operating activities:		
Net income (loss)	$(22,440)	$ 940
Adjustments to reconcile net income to net cash provided from operating activities:		
Provision for unrealized losses on marketable securities	4,842	1,860
Depreciation and amortization	12,309	13,483
Extraordinary gain on debt extinguishment	(4,361)	-
Net realized (gains) losses on marketable securities	3,187	(5,761)
Provision for losses on accounts receivable	684	208
Change in assets and liabilities:		
(Increase) decrease in receivables	6,242	(4,281)
Decrease in inventory	3,018	9,724
Increase (decrease) in accounts payable	(2,067)	1,867
Decrease in accrued expenses	(3,119)	(4,026)
Decrease in other liabilities and deferred credits	(2,124)	(4,520)
Other, net	1,466	(1,396)
Net cash provided from (used in) operating activities	(2,363)	8,098
Cash flow provided from (used in) investing activities:		
Sales (purchases) of marketable securities, net	8,070	3,964
Fixed asset additions	(4,821)	(9,525)
Fixed asset sales, retirements and other, net	758	5,040
Capitalized software development costs	(1,147)	(4,030)
Other, net	597	66
Net cash provided from (used in) investing activities	3,457	(4,485)
Cash flow provided from (used in) financing activities:		
Proceeds and payments on debt, net	(1,579)	149
Repurchase of 8-7/8% convertible subordinated debentures	(3,289)	-
Payments of dividends on preferred stock	(2,385)	(4,809)
Other, net	26	(1)
Net cash (used in) financing activities	(7,227)	(4,661)
Effect of foreign currency translation on cash	875	(33)
Net increase (decrease) in cash and cash equivalents	(5,258)	(1,081)
Cash and cash equivalents at beginning of year	22,166	39,237
Cash and cash equivalents at end of period	$ 16,908	$ 38,156
Cash payments (refunds) for:		
Interest, net of amounts capitalized	$ 6,196	$ 4,663
Income taxes	$(966)	$ 4,257

See accompanying notes to consolidated financial statements.

DATAPOINT CORPORATION AND SUBSIDIARIES
Notes to Consolidated Financial Statements
(Unaudited)

1. Preparation of Financial Statements

The consolidated financial statements included herein have been prepared by Datapoint Corporation (the "Company"), without audit, pursuant to the rules and regulations of the Securities and Exchange Commission and in accordance with generally accepted accounting principles. In the opinion of management, the information furnished reflects all adjustments which are necessary for a fair statement of the results of the interim periods presented. It is recommended that these statements be read in conjunction with the financial statements and notes thereto included in the Company's Annual Report and Form 10-K for the year ended July 29, 1989.

The results of operations for the three and six months ended January 27, 1990, are not necessarily indicative of the results to be expected for the full year.

2. Restricted Cash and Marketable Securities

At January 27, 1990, restricted cash and marketable securities consisted of $6.6 million in cash and $15.9 million in marketable securities, at market. At July 29, 1989, the restricted marketable securities of $23.4 million was stated at market. Cost for restricted marketable securities was $25.1 million and $29.3 million, respectively, for these periods.

3. Charges Impacting Operating Loss

During the quarter ended January 27, 1990, the operating loss was impacted by special charges of $5.3 million recorded as a result of actions taken to streamline the Company's U.S. operations. These charges included employee severance accruals of $3.6 million, office closing accruals of $0.7 million and other charges of $1.0 million.

4. Extraordinary Items

During the first quarter of fiscal 1990, the Company repurchased $7.7 million of its 8-7/8% convertible subordinated debentures resulting in an extraordinary gain of $4.4 million. In addition, the utilization of post-acquisition net operating loss carryforwards of certain foreign subsidiaries resulted in extraordinary credits during the second quarter and first six months of fiscal 1990 of $0.3 million and $0.4 million, respectively.

5. Preferred Stock Dividend

During the second quarter of fiscal 1990, the Company elected to not pay a dividend on its preferred stock. Dividends in arrears at the end of the second quarter were $2.4 million or $1.235 per preferred share.

6. Fidelcor Business Credit Corporation Secured Credit Facility

Subsequent to quarter-end, on March 7, 1990 the Company completed a $22.5 million secured credit facility with Fidelcor Business Credit Corporation, a nationwide asset-based lending subsidiary of First Fidelity Bancorporation. As of March 9, 1990, the Company borrowed $15.2 million, of which $8.1 million was under term loan provisions and $7.1 million was under a two year revolving loan arrangement. The credit facility requires that the Company meet a number of non-financial covenants on an ongoing basis. The credit facility also includes a provision prohibiting the Company from paying a dividend on its preferred stock for the next two years. The interest rate on the credit facility is three percent over the prime commercial lending rate of Fidelity Bank, N.A. on minimum borrowings of $11.25 million. The Company's financial statements for the second quarter of 1990 do not reflect the effect of the refinancing.

7. Commitments and Contingencies

The Company received a favorable judgement entered August 31, 1988, in the patent infringement suit brought by Northern Telecom, Inc. filed on June 29, 1982 in the United States District Court for the Northern District of Texas, Dallas Division. The action alleged damages exceeding $65.0 million. The judgement found the patent invalid and unenforceable but partially infringed and that the Company is not liable to Northern Telecom, Inc. Northern Telecom, Inc. has appealed and the Company is vigorously defending the appeal.

In September 1985, the Company and its directors, among other co-defendants, were sued in Delaware Chancery Court by a purported holder of the Company's 8-7/8% convertible subordinated debentures, due 2006, who seeks to represent the class of such debenture holders. The suit alleges that the Company's spin-off to stockholders of Intelogic Trace, Inc. ("IT") was in default of the Company's obligations under the indenture entered into with respect to these debentures. The complaint seeks redemption of such debentures pursuant to the terms of the indenture, as well as assumption of debenture obligations by IT, rescission of the spin-off, and other relief. As of January 27, 1990, $71.0 million in principal amount of such debentures were outstanding. Based on the advice of counsel, the Company believes that the action is without merit and will vigorously defend the suit.

The Company's French subsidiary has been sued in France by Compagnie Internationale de Services en Informatique ("CISI"), a French corporation, alleging that the Company's ARCNET® system

violates a French patent on computer networks issued in 1974. The patent will expire in 1991. The case is before the Tribunal de Grande Instance de Creteil. CISI seeks an injunction against future sales of ARCNET systems and damages for past sales. The amount of the Company's potential liability, were CISI to prevail in the action, is not presently determinable but could be substantial. However, based upon the advice of counsel, the Company believes that the patent is invalid and that the suit is therefore without merit.

The Company is also a defendant in various other lawsuits generally incidental to its business. The amounts sought by the plaintiffs in such cases are substantial and, if all such cases were decided adversely to the Company, the Company's aggregate liability might be material. However, the Company does not expect such an aggregate result.

With respect to each of the foregoing matters, no provision has been made in the accompanying financial statements for any possible liability.

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations (Years Referred to are Fiscal Years)

During the second quarter of 1990, the Company streamlined its U.S. operations and accordingly incurred $5.3 million of restructuring charges. These charges include employee severance of $3.6 million, office closing accruals of $0.7 million and other charges of $1.0 million. These charges were in addition to the $2.2 million incurred during the first quarter of 1990 which were related to office closing accruals of $1.3 million and severance accruals of $0.9 million for the streamlining of the U.S. sales organization.

Financial Condition

During the first half of fiscal 1990, the Company's cash and cash equivalents decreased $5.3 million. The decline is primarily due to the use of cash for fixed asset additions, repurchase of $7.7 million of the Company's 8-7/8% convertible subordinated debentures for $3.3 million, and the use of cash in operations. The Company also utilized cash during the first quarter of 1990 for payment of the preferred stock dividend but in the second quarter, elected to not make this payment. The dividends are cumulative and as of January 27, 1990, were $2.4 million in arrears. These usages of cash were partially offset by sales of marketable securities which provided 8.1 million in cash. Cash flow from operations was positive during the second quarter by $0.3 million.

As of January 27, 1990 the Company had a $21.0 million loan with First City National Bank of Houston (the "Bank"). Subsequent to that date, on March 9, 1990 the Company retired this debt through the use of cash, and through a secured credit facility with Fidelcor Business Credit Corporation ("Fidelcor"). (See note 6 to the Consolidated Financial Statements included as Item 1 of Part I.)

The Company has an internal source of liquidity in an investment portfolio with a market value of $26.5 million. At the end of the second quarter of fiscal 1990, the portfolio consisted of $8.0 million of cash and $18.5 million of marketable securities, of which $6.6 million in cash and $15.9 million in marketable securities was restricted to collateralize the Bank borrowings.

Results of Operations

The Company had an operating loss of $5.1 million, and a net loss of $9.4 million for the second quarter of 1990. This compares with operating income of $0.8 million and a net loss of $1.9 million, for the second quarter of 1989. Excluding the restructuring charges, the Company would have had operating income

of $0.2 million for the second quarter of 1990. The Company's operating loss and net loss for the first six months of 1990 was $10.7 million and $22.4 million, respectively, compared with operating income and net income of $1.3 million and $0.9 million, respectively, for the first six months of 1989.

The following is a summary of the Company's sources of revenue:

(In thousands)	Three Months Ended 01/27/90	Three Months Ended 01/28/89	Six Months Ended 01/27/90	Six Months Ended 01/28/89
Sales:				
U.S.	$ 5,553	$ 11,538	$ 10,729	$ 24,169
Foreign	33,641	42,805	62,238	76,041
	39,194	54,343	72,967	100,210
Service and lease:				
U.S.	937	1,388	2,073	2,862
Foreign	27,265	28,855	52,591	54,989
	28,202	30,243	54,664	57,851
Total revenue	$ 67,396	$ 84,586	$127,631	$158,061

Revenue for the second quarter and first half of 1990 declined significantly when compared with the same periods a year ago. The decline was primarily in worldwide equipment sales. The decline in the U.S. was due to a continuing slowdown in the computer industry, customer uncertainty about the future of the company and the completion in fiscal 1989 of a significant government contract which generated $4.2 million in revenue during the first half of 1989. The decline in foreign sale revenues was experienced primarily in France, Australia, Canada and the United Kingdom. The strengthening of the U.S. dollar also adversely impacted foreign revenue for the second quarter and first six months of fiscal 1990 by $1.9 million and $3.3 million, respectively, as compared with the same periods a year ago.

Gross profit margin for the second quarter and first six months of 1990 was 35.3% and 37.1%, respectively, compared with 40.5% and 41.0% for the same periods a year ago. These declines are due primarily to the restructuring charges incurred during the second quarter of 1990, declining margins on sales of the Company's older products such as the 8600 and 8850's, and a decline in high margin lease revenue due to the Company's emphasis on sale revenue. Service margins have improved 2.2% and 2.3% for the second quarter and first six months of 1990, respectively, as compared to the same periods of 1989, due to cost cutting measures taken.

Operating expenses during the second quarter and first six months of 1990 declined $4.6 million and $5.5 million, respectively, from the same periods a year ago. The expense reduction reflects cost cutting measures taken over the last four quarters. Excluding the restructuring charges during the second quarter and first six months of 1990, expenses declined $8.1 million and $11.2, respectively, from the same periods of 1989.

The Company incurred $3.6 million of non-operating charges during the second quarter of 1990, consisting primarily of net interest expense and a loss of $1.4 million on the the Company's investment portfolio. Non-operating charges for the first half of 1990 resulted primarily from $4.8 million in unrealized losses and $2.4 million in net realized losses on the investment portfolio, net interest expense of $5.1 million, and $2.7 million of charges incurred in the shareholders consent solicitation. Also during the first quarter of 1990, the Company recognized an extraordinary gain of $4.4 million on the repurchase of its 8-7/8% convertible subordinated debentures purchased with funds from the investment portfolio.

PART II. OTHER INFORMATION

Item 1. Legal Proceedings

See Item 3 of Registrant's Report on Form 10-K for the fiscal year ended July 29, 1989, for a description of certain legal proceedings heretofore reported. See also note 7 to the Consolidated Financial Statements included as Item 1 of Part I of this Report.

SIGNATURE

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

DATAPOINT CORPORATION
(Registrant)

DATE: March 12, 1990

/s/ Kenneth R. Kamp
Kenneth R. Kamp
Chief Financial Officer
(Chief Accounting Officer)

Kidder, Peabody & Co.
Incorporated
10 HANOVER SQUARE
NEW YORK, N.Y. 10005

May 1, 1990

Sterling Software, Inc.
8080 North Central Expressway, Suite 1100
Dallas, TX 75206-1895

Attention: Ms. Jeannette P. Meier
Senior Vice President and General Counsel

In connection with your consideration of a possible transaction with Datapoint Corporation (the "Company") pursuant to which you would acquire the Company, or certain assets or businesses of the Company (the "Transaction"), you have requested financial and other information concerning the business and affairs of the Company. As a condition to the Company's furnishing to you and your directors, officers, employees, agents, advisors and potential financing sources (collectively, "Representatives") financial and other information that has not heretofore been made generally available, you agree to treat such information furnished to you by or on behalf of the Company or its Representatives and all analyses, compilations, studies and other material prepared by you or your Representatives containing or based in whole or in part on any such information furnished by or on behalf of the Company or any of its Representatives (collectively, the "Evaluation Material"), as follows:

1. You recognize and acknowledge the competitive value and confidential and proprietary nature of the Evaluation Material and the damage that could result to the Company if information contained therein is disclosed to any third party.

2. You agree that the Evaluation Material will be used solely for the purpose of evaluating the Transaction and not in connection with the consideration of any other transaction, including without limitation any other transaction or investment directly or indirectly involving the Company. You also agree that you will not disclose any of the Evaluation Material to any third party without the prior written consent of the Company; provided, however, that any such information may be disclosed to your Representatives who need to know such information for the purpose of evaluating the Transaction and who agree to keep such information confidential and to be bound by this agreement to the same extent as if they were parties hereto.

3. In the event that you or your Representatives are requested in any proceeding to disclose any Evaluation Material, you will give the Company prompt notice of such request so that the Company may seek an appropriate protective order. If, in the absence of a protective order, you or your Representatives are nonetheless compelled to disclose such Evaluation Material, you or your Representatives, as the case may be, may disclose such information to the extent compelled to do so in such proceeding without liability hereunder; provided, however, that you give the Company written notice of the information to be disclosed as far in advance of its disclosure as is practicable and use your best efforts to obtain assurances that confidential treatment will be accorded to such information.

4. Without the prior written consent of the Company, you and your Representatives will not disclose to any person either the fact that discussions or negotiations are taking place concerning a possible transaction with the Company or any of the terms, conditions or other facts with respect to the Transaction including the status thereof or the subject matter of this agreement; provided, that you may make such disclosure if you have received the written opinion of your outside counsel that such disclosure must be made by you in order that you not commit a violation of law.

5. You hereby represent that, as of the date hereof, you and your affiliates and associates (as such terms are defined in Rule 12b-2 under the Securities Exchange Act of 1934, as amended (the "Exchange Act")), together with any other person with whom you are acting in concert in connection with this matter or have formed a "group" within the meaning of Section 13(d) (3) of the Exchange Act (a "Group Member") beneficially own in the aggregate less than 5% of the outstanding shares of common stock of the Company. You hereby represent that each and every Group Member is executing a copy of this letter.

6. For a period of two years from the date hereof you and your affiliates, as defined in Rule 12b-2 under the Securities Exchange Act of 1934, as amended (the "Exchange Act"), will not (and you and they will not assist or encourage others to), directly or indirectly, unless specifically requested to do so in writing in advance by the Company's Board of Directors:

   (a) acquire or agree, offer, seek or propose to acquire, or cause to be acquired, ownership (including, but not limited to, beneficial ownership as defined in Rule 13d-3 under the Exchange Act) of any of the Company's assets or businesses, or any voting or debt securities or preferred stock of the Company, or any bank debt, claims or other obligations of the Company, or any rights or options to acquire such ownership (including from a third party); or

   (b) seek or propose to influence or control the management or policies of the Company or to obtain representation on the Company's Board of directors, or solicit, or participate in the solicitation of, any proxies or consents with respect to any securities of the Company, or make any public announcement with respect to any of the foregoing or request permission to do any of the forgoing; or

   (c) seek to negotiate or influence the terms and conditions of employment of employees of the Company or any agreement of collective bargaining with employees of the Company; or

   (d) enter into any discussions, negotiations, arrangements or understandings with any third party with respect to any of the foregoing.

   The restrictions contained in this paragraph (6) shall not be applicable to ordinary brokerage or trading transactions by a securities dealer or purchases by an institutional investor solely for investment purposes aggregating less than 5% of the Company's outstanding voting securities.

7. All inquiries, requests for information and other communications with the Company shall be made through either Doug Lister (212-510-4017) or Samme Thompson (212-510-3168), at Kidder, Peabody.

8. In the event that the Transaction is not consummated, neither you nor your Representatives shall, without the prior written consent of the Company, use any of the Evaluation Material for any purpose. Upon the Company's request, you will promptly redeliver to the Company all copies of all Evaluation Material furnished to you or your Representatives by or on behalf of the Company and will destroy all analyses, compilations, studies and other material based in whole or in part on such material prepared by you or your Representatives, provided however, that your outside counsel may retain one copy solely for archival purposes.

9. You and your Representatives shall have no obligation hereunder with respect to any information in the Evaluation Materials to the extent that such information (a) is known to you or has been made public other than by acts by you or your Representatives in violation of this agreement or (b) becomes available to you on a nonconfidential basis from a source that is entitled to disclose it on a nonconfidential basis.

10. You understand and agree that (i) the Company and Kidder, Peabody shall be free to conduct the process relating to the Transaction as they in their sole discretion shall determine (including, without limitation, negotiating with any of the prospective parties and entering into an agreement to effect a Transaction without prior notice to you or any other person), (ii) any procedures relating to such sale may be changed at any time without notice to you or any other person and (iii) you shall not have any rights or claims whatsoever against the Company, Kidder, Peabody or any of their respective directors, officer, stockholders, owners, affiliates or agents arising out of or relating to the Transaction (other than any rights or claims arising out of any definitive written purchase agreement with you ("Purchase Agreement") in accordance with its terms).

11. You understand that neither the Company nor Kidder, Peabody makes any representation or warranty as to the accuracy or completeness of the Evaluation Material and you agree that neither the Company nor any of its Representatives shall have any liability with respect to the Evaluation Material or any use thereof. Only the representations and warranties and other terms and conditions of a Purchase Agreement, when, as and if it is executed and delivered (and subject to the restrictions and conditions specified therein) shall have any legal effect.

12. You agree that money damages would not be a sufficient remedy for any breach of this agreement by you or your Representatives, and that, in addition to all other remedies, the Company shall be entitled to specific performance and injunctive or other equitable relief as a remedy for any such breach, and you further agree to waive, and to use your best efforts to cause your Representatives to waive, any requirement for the securing or posting of any bond in connection with such remedy. You agree to be responsible for any breach of this agreement by any of your Representatives.

13. No failure or delay by the Company or any of its Representatives in exercising any right, power or privilege under this agreement shall operate as a waiver thereof nor shall any single or partial exercise thereof preclude any other or further exercise of any right, power or privilege hereunder. No provision of this agreement may be waived or amended nor any consent given except by a writing signed by a duly authorized representative of the Company, which specifically refers to this agreement and the provision so amended or for which such waiver or consent is given.

14. In case any provision of this agreement shall be invalid, illegal or unenforceable, the validity, legality and enforceability of the remaining provisions of the agreement shall not in any way be affected or impaired thereby. The term of this agreement shall be two years from the date hereof.

15. This agreement shall be governed by and construed in accordance with the laws of the State of New York without giving effect to choice of law doctrines. Each party hereto consents to personal jurisdiction in such State and voluntarily submits to the jurisdiction of the courts of such State in any action or proceeding with respect to this agreement, including the federal district courts located in such State. You agree that you may be served with process at your address set forth on the first page hereof.

Please acknowledge your agreement to the foregoing by countersigning this letter in the place provided below and returning it to Kidder, Peabody.

Very truly yours,

DATAPOINT CORPORATION

By: KIDDER, PEABODY & CO. INCORPORATED
on behalf of Datapoint Corporation

By: _____

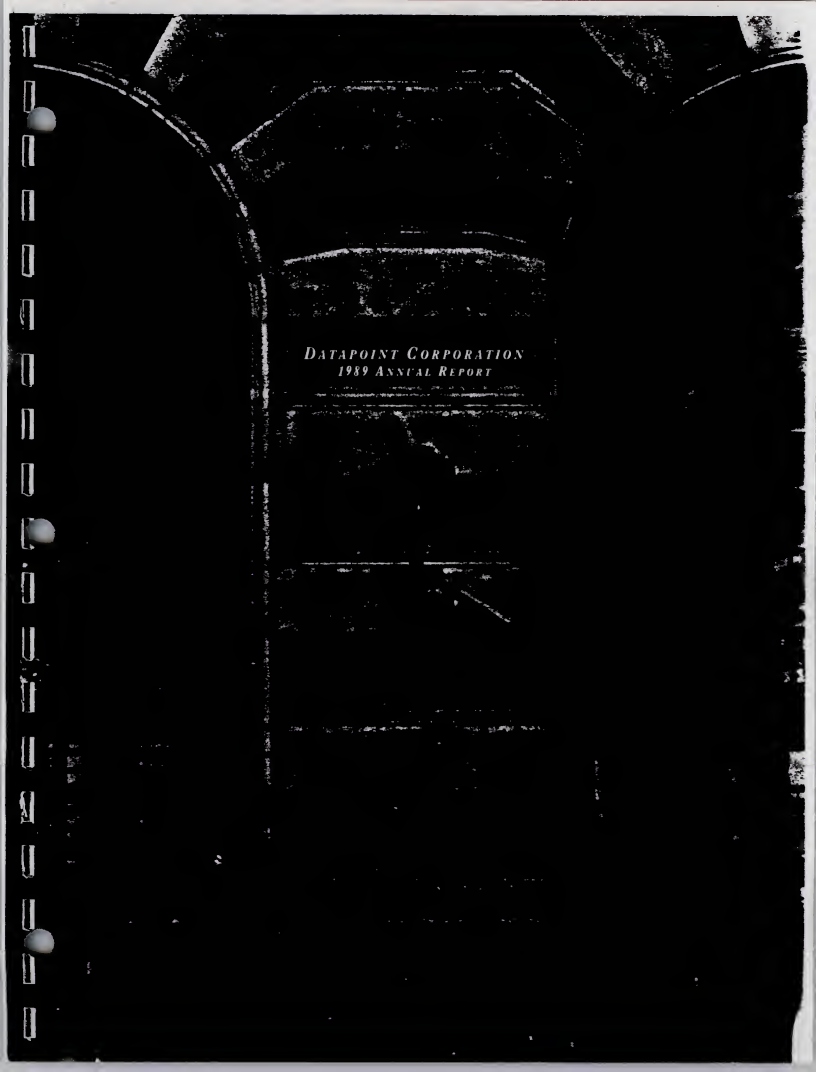
Executed and Agreed

This ____ day of _____, 1990

STERLING SOFTWARE, INC.

By: _____

Title: _____



DATAPOINT CORPORATION
1989 ANNUAL REPORT

1988
30,827
14,995
7,997
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7,417
5,530
1,765
3,184
5,519
1,975
3,693

Letter to Stockholders

The world around us is changing. Recognizing that change, Datapoint began more than five years ago to build a new product line incorporating industry-standard technology. Our customers have told us that this was the right direction, and, today, we are accelerating and expanding our commitment to this strategy.

The importance of providing products which are based on open architectures and which incorporate commodity components is even greater today, both for Datapoint and for other manufacturers. Purchasers are becoming increasingly sensitive to the market and less willing to be tied to specific vendors.

One of Datapoint's greatest and continuing strengths is our proficiency at integrating our own equipment and *de facto* industry standards — along with the systems and components of many other vendors — into unique networks of capabilities that cost-effectively meet and evolve with our customers' changing computing needs.

We continue to focus our efforts on standards and on enhancing the flexibility of our products. We are optimizing the impact of our resources, our people, and our strategic direction by maintaining our emphasis on cost-effectively serving our customers' needs. We will continue to integrate leading-edge technology, consistent with the vision of the future environment our customers are helping us to create.

In our current, increasingly competitive business environment, even those companies that are already perceived as "the standards" are troubled by disappointing financial results. While the financial results of our fiscal year 1989 are disappointing, they reflect actions that had to be taken to position the Company for the 1990s. We acknowledge change as a constant environment. Therefore, we are embracing the management of change within our culture, so that it works to our advantage. This demands that we continue to improve efficiency, to manage costs vigilantly, and to provide tools and develop environments to enhance productivity.

Datapoint continues to conduct its business across the United States and in more than forty countries around the world through its subsidiaries and a network of independent distributors. The Company's financial position is sound, and we continue to seek ways to achieve consistent profitability. That is our number one priority.

We continue to extend and refine our excellent product portfolio. We have a talented, experienced, dedicated team of employees, and each one of us is committed to the success, profitability, and future growth of the Company.

October 26, 1989

Asher B. Edelman
Chairman of the Board

Michael M. Michigami
President and Chief Executive Officer

FISCAL YEAR 1989 IN REVIEW

Datapoint Corporation began its third decade during fiscal year 1989. The worldwide business profile for Datapoint in 1989 is reflected in the chart below:

	PRINCIPAL MARKETS				
PRINCIPAL PRODUCTS	Financial Services	Distribution	Government	Manufacturing	Other*
Distributed Data Processing	•	•	•	•	•
Connectivity	•	•	•	•	•
Telecommunications					
Call Center Management	•	•	•		•
Video-Teleconferencing	•		•	•	•
Electronic Mail/TELEX	•		•	•	•
Applications	Insurance	Automobile Dealerships	Libraries	Flex-Time	Hotels Flex-Time

**served primarily through value-added resellers and international distributors*

The Company has broad representation in major markets because it supplies a spectrum of computing products and capabilities that meet the complex needs of sophisticated customers and offer flexible options for growth and evolution.

The common threads through the diverse uses of the Company's products are expandability, high performance, and comprehensive system services — from system design through user training to ongoing technical support.

TARGETED INDUSTRY SEGMENTS

During fiscal year 1989, Datapoint sharpened its focus on four key industry segments: financial services, government, distribution, and manufacturing. Highlights from customers in these areas can be found in "Networking People," the narrative section of this annual report. As stated by our customers, the particular strengths of Datapoint systems that result in our success in these segments include:

- incremental systems growth that protects investments;
- high reliability and fault resilience;
- high transaction throughput;
- excellent database management capability;
- access to shared data and system resources;
- connectivity as an integral part of the solution; and
- applications expertise.

Significant sales occurred in each of these segments in most of Datapoint's geographic markets. While the Company is experiencing success in its target markets, we continue to identify changes in them which can create growth opportunities.

Market research shows that the transition to the so-called "client/server" model has begun in our target market segments. Client/server application models graft the power and security of mainframe and minicomputer environments onto the friendly, cost-competitive, user-oriented personal computer platform.

Frost & Sullivan forecasts that sales of client/server systems will grow at a compound annual rate of 83 percent to over $29 billion by 1993.* These systems, consisting of networked PC-compatible workstations and shared relational database management systems (RDBMS), are expected to be implemented in the near term by many participants in the financial services sector. Likewise, computer integrated manufacturing (CIM) and customer service systems, based upon the same networking/RDBMS/PC workstation technical platform, are expected to experience significant growth,** while sales into the traditional minicomputer and standalone PC markets stagnate.

In response to the long-range planning of the Company, Datapoint® Product Development has released a series of new products targeted to compete in the growth segments defined above, while extending the capabilities of existing Datapoint systems. (For a listing of products introduced in fiscal 1989, see Form 10-K filed with the U.S. Securities and Exchange Commission.)

NETWORKING/RELATIONAL DATABASE MANAGEMENT SYSTEMS/PC WORKSTATIONS

Networking: The DATALAN™ personal computer network operating system, introduced in September 1988, brings high-performance, industry-standard personal computer networking to the Datapoint product line. Introduced in June 1989, DATALAN/XA

**Personal Computing*, October 1989, p. 192B.
**Sierra Group, *Market Moves*, 1989.

INPUT®

Parsippany Place Corporate Center, Suite 201, 959 Route 46 East, Parsippany, NJ 07054-3492 (201) 299-6999

CONFIDENTIAL

VIA FEDERAL EXPRESS

May 1, 1990

Mr. Sterling Williams
STERLING SOFTWARE
8080 North Central Expressway
Suite 1100
Dallas, TX 75206

Dear Sterling:

This will confirm our verbal agreement for INPUT to perform an assessment of the value of Datapoint and Intelogic Trace, as going concerns as well as the value of their principal components. Our objective in this initial assessment will be to provide a realistic range of value with supporting analysis.

We will combine publicly available information with INPUT's knowledge of the companies (especially Intelogic Trace) and our knowledge of products and markets.

It is my understanding that if you receive material from First Boston you will make it available to us after appropriate non-disclosure has been signed by us. (FYI: Apparently, Kidder Peabody may have prepared material on Datapoint a few months ago; however, we are not following up on that at this time.)

We are targeting having the initial assessment to you within two weeks. Our fee for the work will not exceed $15,000.

(Please signify your acceptance by signing below.)

Sincerely,

Thomas O'Flaherty
Vice President

cc: Peter A. Cunningham

ACCEPTED:

Sterling Williams

Kidder, Peabody & Co.
Incorporated
10 HANOVER SQUARE
NEW YORK, N.Y. 10005

Douglas S. Lister
VICE PRESIDENT

(212) 510-4017

May 1, 1990

Ms. Jennette P. Meier
Senior Vice President and General Counsel
Sterling Software, Inc.
8080 North Centre Expressway, Suite 1100
Dallas, TX 75206

Dear Jeannette:

Thank you for your interest in Datapoint Corporation ("Datapoint" or the "Company"). I enclose a copy of the Datapoint information memorandum for your review.

Kidder, Peabody, on behalf of the Company, has made information available to selected parties who have expressed interest in the Company. If, after your review of the enclosed information, you wish to conduct more extensive due diligence, please contact me at (212) 510-4017, or Samme Thompson at (212) 510-3168 at your earliest convenience to communicate such interest. Please be prepared to indicate the desired scope and location of such due diligence, specific items of additional information desired, an anticipated timetable for the completion of such due diligence, and the dimensions of the transaction contemplated, together with your non-binding estimate of value. Based upon an assessment of the interest expressed, and our assessment of interested parties' ability to complete a transaction, we plan to allow selected parties to proceed with further due diligence.

In formulating your views of valuation, you should have reference only to the assets of the business. While Datapoint is prepared to entertain proposals which encompass disposition of the Company's outstanding debt and preferred securities (both of which trade at substantial discounts to their face value or liquidation preference), the Company would prefer to entertain an offer formulated as an asset purchase.

Please sign both copies of the enclosed confidentiality agreement, return one copy to me, and retain the other for your files.

Sincerely,

Kidder, Peabody & Co.
Incorporated
10 HANOVER SQUARE
NEW YORK, N.Y. 10005

May 1, 1990

Sterling Software, Inc.
8080 North Central Expressway, Suite 1100
Dallas, TX 75206-1895

Attention: Ms. Jeannette P. Meier
Senior Vice President and General Counsel

In connection with your consideration of a possible transaction with Datapoint Corporation (the "Company") pursuant to which you would acquire the Company, or certain assets or businesses of the Company (the "Transaction"), you have requested financial and other information concerning the business and affairs of the Company. As a condition to the Company's furnishing to you and your directors, officers, employees, agents, advisors and potential financing sources (collectively, "Representatives") financial and other information that has not heretofore been made generally available, you agree to treat such information furnished to you by or on behalf of the Company or its Representatives and all analyses, compilations, studies and other material prepared by you or your Representatives containing or based in whole or in part on any such information furnished by or on behalf of the Company or any of its Representatives (collectively, the "Evaluation Material"), as follows:

1. You recognize and acknowledge the competitive value and confidential and proprietary nature of the Evaluation Material and the damage that could result to the Company if information contained therein is disclosed to any third party.

2. You agree that the Evaluation Material will be used solely for the purpose of evaluating the Transaction and not in connection with the consideration of any other transaction, including without limitation any other transaction or investment directly or indirectly involving the Company. You also agree that you will not disclose any of the Evaluation Material to any third party without the prior written consent of the Company; provided, however, that any such information may be disclosed to your Representatives who need to know such information for the purpose of evaluating the Transaction and who agree to keep such information confidential and to be bound by this agreement to the same extent as if they were parties hereto.

3. In the event that you or your Representatives are requested in any proceeding to disclose any Evaluation Material, you will give the Company prompt notice of such request so that the Company may seek an appropriate protective order. If, in the absence of a protective order, you or your Representatives are nonetheless compelled to disclose such Evaluation Material, you or your Representatives, as the case may be, may disclose such information to the extent compelled to do so in such proceeding without liability hereunder; provided, however, that you give the Company written notice of the information to be disclosed as far in advance of its disclosure as is practicable and use your best efforts to obtain assurances that confidential treatment will be accorded to such information.

4. Without the prior written consent of the Company, you and your Representatives will not disclose to any person either the fact that discussions or negotiations are taking place concerning a possible transaction with the Company or any of the terms, conditions or other facts with respect to the Transaction including the status thereof or the subject matter of this agreement; provided, that you may make such disclosure if you have received the written opinion of your outside counsel that such disclosure must be made by you in order that you not commit a violation of law.

5. You hereby represent that, as of the date hereof, you and your affiliates and associates (as such terms are defined in Rule 12b-2 under the Securities Exchange Act of 1934, as amended (the "Exchange Act")), together with any other person with whom you are acting in concert in connection with this matter or have formed a "group" within the meaning of Section 13(d) (3) of the Exchange Act (a "Group Member") beneficially own in the aggregate less than 5% of the outstanding shares of common stock of the Company. You hereby represent that each and every Group Member is executing a copy of this letter.

6. For a period of two years from the date hereof you and your affiliates, as defined in Rule 12b-2 under the Securities Exchange Act of 1934, as amended (the "Exchange Act"), will not (and you and they will not assist or encourage others to), directly or indirectly, unless specifically requested to do so in writing in advance by the Company's Board of Directors:

   (a) acquire or agree, offer, seek or propose to acquire, or cause to be acquired, ownership (including, but not limited to, beneficial ownership as defined in Rule 13d-3 under the Exchange Act) of any of the Company's assets or businesses, or any voting or debt securities or preferred stock of the Company, or any bank debt, claims or other obligations of the Company, or any rights or options to acquire such ownership (including from a third party); or

   (b) seek or propose to influence or control the management or policies of the Company or to obtain representation on the Company's Board of directors, or solicit, or participate in the solicitation of, any proxies or consents with respect to any securities of the Company, or make any public announcement with respect to any of the foregoing or request permission to do any of the forgoing; or

   (c) seek to negotiate or influence the terms and conditions of employment of employees of the Company or any agreement of collective bargaining with employees of the Company; or

   (d) enter into any discussions, negotiations, arrangements or understandings with any third party with respect to any of the foregoing.

   The restrictions contained in this paragraph (6) shall not be applicable to ordinary brokerage or trading transactions by a securities dealer or purchases by an institutional investor solely for investment purposes aggregating less than 5% of the Company's outstanding voting securities.

7. All inquiries, requests for information and other communications with the Company shall be made through either Doug Lister (212-510-4017) or Samme Thompson (212-510-3168), at Kidder, Peabody.

8. In the event that the Transaction is not consummated, neither you nor your Representatives shall, without the prior written consent of the Company, use any of the Evaluation Material for any purpose. Upon the Company's request, you will promptly redeliver to the Company all copies of all Evaluation Material furnished to you or your Representatives by or on behalf of the Company and will destroy all analyses, compilations, studies and other material based in whole or in part on such material prepared by you or your Representatives, provided however, that your outside counsel may retain one copy solely for archival purposes.

9. You and your Representatives shall have no obligation hereunder with respect to any information in the Evaluation Materials to the extent that such information (a) is known to you or has been made public other than by acts by you or your Representatives in violation of this agreement or (b) becomes available to you on a nonconfidential basis from a source that is entitled to disclose it on a nonconfidential basis.

10. You understand and agree that (i) the Company and Kidder, Peabody shall be free to conduct the process relating to the Transaction as they in their sole discretion shall determine (including, without limitation, negotiating with any of the prospective parties and entering into an agreement to effect a Transaction without prior notice to you or any other person), (ii) any procedures relating to such sale may be changed at any time without notice to you or any other person and (iii) you shall not have any rights or claims whatsoever against the Company, Kidder, Peabody or any of their respective directors, officer, stockholders, owners, affiliates or agents arising out of or relating to the Transaction (other than any rights or claims arising out of any definitive written purchase agreement with you ("Purchase Agreement") in accordance with its terms).

11. You understand that neither the Company nor Kidder, Peabody makes any representation or warranty as to the accuracy or completeness of the Evaluation Material and you agree that neither the Company nor any of its Representatives shall have any liability with respect to the Evaluation Material or any use thereof. Only the representations and warranties and other terms and conditions of a Purchase Agreement, when, as and if it is executed and delivered (and subject to the restrictions and conditions specified therein) shall have any legal effect.

12. You agree that money damages would not be a sufficient remedy for any breach of this agreement by you or your Representatives, and that, in addition to all other remedies, the Company shall be entitled to specific performance and injunctive or other equitable relief as a remedy for any such breach, and you further agree to waive, and to use your best efforts to cause your Representatives to waive, any requirement for the securing or posting of any bond in connection with such remedy. You agree to be responsible for any breach of this agreement by any of your Representatives.

13. No failure or delay by the Company or any of its Representatives in exercising any right, power or privilege under this agreement shall operate as a waiver thereof nor shall any single or partial exercise thereof preclude any other or further exercise of any right, power or privilege hereunder. No provision of this agreement may be waived or amended nor any consent given except by a writing signed by a duly authorized representative of the Company, which specifically refers to this agreement and the provision so amended or for which such waiver or consent is given.

14. In case any provision of this agreement shall be invalid, illegal or unenforceable, the validity, legality and enforceability of the remaining provisions of the agreement shall not in any way be affected or impaired thereby. The term of this agreement shall be two years from the date hereof.

15. This agreement shall be governed by and construed in accordance with the laws of the State of New York without giving effect to choice of law doctrines. Each party hereto consents to personal jurisdiction in such State and voluntarily submits to the jurisdiction of the courts of such State in any action or proceeding with respect to this agreement, including the federal district courts located in such State. You agree that you may be served with process at your address set forth on the first page hereof.

Please acknowledge your agreement to the foregoing by countersigning this letter in the place provided below and returning it to Kidder, Peabody.

Very truly yours,

DATAPOINT CORPORATION

By: KIDDER, PEABODY & CO. INCORPORATED
on behalf of Datapoint Corporation

By: _____

Executed and Agreed

This ___ day of _____, 1990

STERLING SOFTWARE, INC.

By:_____

Title:_____

INPUT®

Parsippany Place Corporate Center, Suite 201, 959 Route 46 East, Parsippany, NJ 07054-3492 (201) 299-6999

CONFIDENTIAL

VIA FEDERAL EXPRESS

May 1, 1990

Mr. Sterling Williams
STERLING SOFTWARE
8080 North Central Expressway
Suite 1100
Dallas, TX 75206

Dear Sterling:

This will confirm our verbal agreement for INPUT to perform an assessment of the value of Datapoint and Intelogic Trace, as going concerns as well as the value of their principal components. Our objective in this initial assessment will be to provide a realistic range of value with supporting analysis.

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We are targeting having the initial assessment to you within two weeks. Our fee for the work will not exceed $15,000.

(Please signify your acceptance by signing below.)

Sincerely,

Thomas O'Flaherty
Vice President

cc: Peter A. Cunningham

ACCEPTED:

Sterling Williams

Datapoint - 1989 (FY)

	HW	Other	Total
"Data processing"	~~153~~ 109e	~~19~~ ~~20~~ 17e	~~173~~ 126
Telecomm	~~33~~ 30e	~~17~~ 15e	50 45
Field Svc	—	90 ~~84~~	90 ~~80~~ 84
Total	~~186~~ 138	~~127~~ ~~112~~ 116	~~313~~ 255

SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-K

(Mark One)

[X] ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934 [*FEE REQUIRED*]
For the fiscal year ended July 29, 1989

OR

[ ] TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934 [*NO FEE REQUIRED*]
For the transition period from _____ to _____

Commission file number 1-7636

DATAPOINT CORPORATION

(Exact name of registrant as specified in its charter)

Delaware	74-1605174
(State of incorporation)	(I.R.S. Employer Identification No.)
9725 Datapoint Drive, San Antonio, Texas	78229-8500
(Address of principal executive offices)	(Zip Code)

(512) 699-7000
(Registrant's telephone number, including area code)

SECURITIES REGISTERED PURSUANT TO SECTION 12(b) OF THE ACT:

Title of each class	Name of each exchange on which registered
Common Stock, $.25 par value	New York Stock Exchange
$4.94 Exchangeable Preferred Stock, $1.00 par value	New York Stock Exchange
8 7/8% Convertible Subordinated Debentures Due 2006	New York Stock Exchange

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes __X__. No _____.

As of September 13, 1989, 10,119,695 shares of Datapoint Corporation Common Stock were outstanding (excluding 10,985,010 shares held in Treasury), and the aggregate market value (based upon the last reported sale price of the Common Stock on the New York Stock Exchange - Composite Tape on September 13, 1989) of the shares of Common Stock held by non-affiliates was approximately $34.5 million. (For purposes of calculating the preceding amount only, all directors and executive officers of the registrant are assumed to be affiliates.)

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the following documents are incorporated herein by reference in the Parts of this report indicated below:

Items 5, 6, 7 and 8 of Part II and portions of Item 14 of Part IV - Datapoint Corporation's 1989 Annual Report to Stockholders.

PART I

ITEM 1. *Business.*

General

Datapoint Corporation, including its subsidiaries (hereinafter "Datapoint" or "the Company"), is principally engaged in the development, manufacture, and marketing of computer and communication products -- both hardware and software -- for integrated network systems worldwide.

Datapoint's principal executive offices are located at 9725 Datapoint Drive, San Antonio, Texas 78229-8500, and its telephone number at such address is (512) 699-7000.

Products

In fiscal year 1988, Datapoint introduced high-performance multi-processors with very high throughput as its network servers. During fiscal 1989, market trends indicated that traditional data processing and PC networking marketplaces were merging, in that data processing platforms were becoming servers for networks of PC workstations.

To support this new market opportunity, Datapoint adopted MS-DOS-capable computers as its intelligent workstation offering and introduced a line of diskless workstations and file-entry stations to meet a wide range of customer requirements.

The product introductions in fiscal 1989 complement the Company's earlier products to provide a comprehensive, integrated networking offering and the development tools customers require to create applications that are portable, flexible, and easy to build.

Datapoint provides a full spectrum of network-based solutions that both support and incorporate industry standards: local and wide area networking, UNIX® networking, video networking, image distribution, telephony, relational database management, distributed data processing, multi-vendor connectivity, and large-scale network data systems.

New Products

Following are the major new hardware and software products announced and/or beginning customer delivery during fiscal year 1989.

DATALAN™ is a software product offering high-performance, industry-standard personal computer networking. DATALAN/XA (Extended Architecture) SMB (server message block) server software provides file, print, application, and communications service for IBM-compatible PC networks, and offers access to the Datapoint® 7000-series high-performance servers. DATALAN/XA integrates PC networking based on industry-standard NETBIOS (network basic input/output system) and large-scale server technology. The results are to extend the capabilities of PC networks by providing high performance, high system reliability, data security, and software control. In addition, DATALAN/XA offers PC workstation users access to a broad range of additional network services and resources, such as SNA (System Network Architecture), OSI (Open Systems Interconnection), asynchronous communications, and the ORACLE® relational database management system and its applications.

An ORACLE RDBMS for Datapoint systems was announced in fiscal 1988 and began shipment in fiscal 1989. With ORACLE, Datapoint customers can convert existing application programs, or implement new ones, with a minimum of programming effort, and the results are portable across most vendors' computing platforms. Datapoint's multi-processor network servers support the large transaction loads imposed by multi-user database applications and provide competitive price/performance solutions.

The enhanced DX™ Series of high-performance UNIX System V Network Servers -- available in configurations to support from two to sixty-four users -- support the UNIX System V.3 operating system, thus allowing the customer to select from the wide offering of UNIX applications. The DX-Series servers support multiple networking and connectivity options, including terminal-emulation and file-transfer capabilities with the Datapoint RMS® (Resource Management System®) network management system.

Other new products introduced in fiscal 1989 include:

- image distribution and integration software tools that merge digitized images (photographs, documents, or video frames, for example) with data records, to create a comprehensive online information resource.

- workstations that offer support for the MS-DOS operating system, while providing managed data storage, security, and data integrity.

- sophisticated network monitoring and control systems.

- high-speed dedicated file server and tape backup systems and fault-resistant disk mirroring technology for DATALAN PC networks.

- enhanced industry-standard storage peripherals options for Datapoint 7000-series processors.

- new and extended industry-standard languages -- COBOL, C, SQL, and DATABUS -- to enhance application development facilities.

- a new release of the RMS/XA network management system with improved performance.

- faster and more capable data management utilities for RMS/XA.

- ASYNCGATE™/XA -- asynchronous gateways which enable users of Datapoint's RMS network management system to link into additional multi-vendor and industry-standard platforms and to do so from 7000-series processors. This results in higher data rates and the ability to take advantage of ARC® VCS (Virtual Circuit Services) input/output technology.

- integrated support in the RMS/XA environment for the three major communications architectures that have gained acceptance in the industry today: OSI, via the VISTA-MAIL™ X.400 Gateway; SNA, with a wide variety of device emulators and application program interfaces; and TCP/IP (Transport Control Protocol/Internet Protocol), through Internet file transfer services.

- UTS communications services for access to Unisys host computers.

- the DATALAN RMS Gateway, predecessor of DATALAN/XA.

These products help bridge the environments of distributed data processing and PC networking and broaden and enhance the traditional Datapoint product line. Each was designed to improve productivity, reduce costs, and enhance performance for Datapoint's customers.

In September 1989, the Company announced a major technology development, ARCNETplus™, the second generation of the Datapoint ARCNET® (Attached Resource Computer®) local area network (LAN). Developed by Datapoint, ARCNETplus operates at twenty megabits per second, eight times faster than ARCNET. ARCNETplus is a dynamic multiple-bit-rate LAN technology, which means that it will operate simultaneously with ARCNET on existing networks. Thus, ARCNETplus

provides extra performance on the network where it is needed and also protects customers' investments in their existing installations. Additional features of ARCNETplus include a maximum of 2,047 connections per network segment (almost ten times as many as ARCNET), streamlined network packet overhead, and a greater maximum packet size in order to handle larger blocks of data. Larger address space and support for IEEE 802.2 and Internet Protocol address formats are also provided. Like ARCNET, ARCNETplus will operate with standard coaxial, twisted-pair, fiber, or other popular wiring media.

Markets

Customers

Datapoint sells generally to business and government customers, including the U.S. government, financial institutions, insurance companies, educational institutions, and manufacturers. During fiscal 1989, no one customer accounted for 10 percent or more of consolidated revenues.

Domestic

Datapoint markets its products in the United States through its own marketing force directly to end users; through independent sales representatives who, on a commission basis, solicit orders for Datapoint's products; and through value-added resellers, who purchase Datapoint's products for resale. Independent sales representatives and value-added resellers generally market Datapoint's products in conjunction with application software developed and marketed by such firms.

International

Datapoint's products are marketed to end users in over forty countries through a network of wholly-owned subsidiaries and independent distributors. Datapoint distributes its products internationally through wholly-owned sales and service operations in Canada, most of Western Europe, Brazil, New Zealand, and Australia, and through authorized distributors worldwide. During fiscal year 1989, more than 80 percent of Datapoint's international sales were made to customers in Western Europe.

Customer Service

Pursuant to a Master Maintenance Agreement between Intelogic Trace, Inc. ("IT") and Datapoint dated June 28, 1985, Datapoint retained IT to serve as the exclusive authorized service agent for Datapoint's products in the United States for an evergreen term of six years, subject to Datapoint's right to earlier termination under certain conditions. Maintenance of equipment outside the

United States is provided by Datapoint's international subsidiaries and distributors.

Manufacturing, Raw Materials, and Supplies

A substantial portion of Datapoint's products is purchased from third parties, who manufacture the products to Datapoint's specifications. The products are then resold under Datapoint's name and within Datapoint configurations. Datapoint manufactures the remainder of its products primarily by assembling various purchased components into subassemblies, which are then assembled into finished products. A majority of all such manufacturing is performed at Datapoint's facilities in San Antonio, Texas.

Datapoint seeks, and maintains where practical, multiple sources of supply for the products, components, and raw materials which it uses. However, certain products and components are purchased only from single sources, and Datapoint could experience manufacturing delays if such suppliers should fail to meet Datapoint's requirements.

Research and Product Development

The technology involved in the design and manufacture of Datapoint's products is subject to continuing change. Accordingly, Datapoint is committed to a program of research and development which is oriented toward the development of new hardware and software products and the improvement and expansion of its existing products and services.

Datapoint expensed $11.2 million, $11.6 million, and $19.4 million in the fiscal years ended July 29, 1989, July 30, 1988, and August 1, 1987, respectively, on research and development activity. Datapoint maintains research and development facilities in San Antonio, Texas; Toronto, Canada; and Brussels, Belgium. In fiscal 1989, 1988, and 1987, respectively, Datapoint also spent $4.4 million, $8.1 million, and $7.6 million, which was capitalized, for the internal development of software.

Competition

The development, manufacturing, and marketing of local area network-based information processing and communication systems is an intensely competitive business that is characterized by the frequent introduction of new products based upon technology advances. Datapoint competes, domestically and abroad, with a substantial number of companies, many of which are larger and have greater resources than Datapoint. Such companies, considered in the aggregate, compete in the entire line of products manufactured and marketed by Datapoint.

Datapoint believes that its ability to compete in the local area network and distributed data processing systems market is substantially dependent upon the offering of market-leading systems and components; the ease with which customers can increase the size and capacity of such systems; the ability of such systems to integrate new technological advances without substantial modification and thereby shorten time to market; the accommodation of components from other vendors; the support of industry recognized hardware and software systems; the compatibility of Datapoint's hardware and software with other vendors' products; and the distinctive characteristics of Datapoint's software.

A significant number of local area network and systems vendors have incorporated ARCNET technology into their product lines. It is estimated that there are now approximately two million ARCNET local area network connections installed worldwide, the two-millionth ARCNET connection recently having been manufactured.

Based on industry estimates, ARCNET represents about one-third of all installed LAN connections worldwide. Because the complete ARCNET interface technology is embodied in an integrated set of electronic devices -- stable since its original implementation -- all vendors' ARCNET LANs are compatible with one another at the lowest levels. Approximately one million ARCNET connections are projected to be installed in calendar year 1990.

The maturity and market presence of ARCNET, the sophistication of Datapoint's networking software, and the Company's ability to build, ship, install, and maintain local area networks give Datapoint a competitive advantage.

Competing local area network products, such as Ethernet and Token Ring, promoted by major vendors, such as DEC and IBM, have presented the end user with alternative solutions to Datapoint's product offerings as well as formidable competition.

These competitive factors, along with the overall end-user thrust towards vendor independence and the pervasive use of industry-standard systems (personal computers, UNIX-compatible offerings, operating systems, and horizontal applications) will cause increased competition. Datapoint's product line has been refocused, emphasizing incorporation and support of industry standards, in order to compete effectively in these markets.

Datapoint believes that when the ARCNETplus technology, announced in September of 1989, is brought to market, it will provide the Company with a new competitive edge in the local area network market.

Backlog

The dollar amount of backlog at any particular date is not indicative of future revenues, since an increasing amount of the Company's revenue is derived from orders obtained in the period of shipment. Furthermore, a portion of the Company's backlog may be cancelable at the customer's option, under certain conditions, without financial penalty. Backlog is also not a reliable indicator of future results, as changes in product mix and costs may significantly impact reported results. Therefore, the Company believes that backlog data is not meaningful to an understanding of the Company's business or future reported results.

Patents

Datapoint owns certain patents, copyrights, trademarks, and trade secrets and has filed certain patent applications, which it considers valuable proprietary assets. However, Datapoint does not primarily rely on these rights to establish or protect its market position. Because of the many patents issued in the electronics industry, Datapoint's operations may involve claims of infringement of existing patents. See "Legal Proceedings."

Employees

At July 29, 1989, Datapoint had 2,451 employees. Datapoint considers its relations with employees to be satisfactory.

Environmental Matters

Compliance with current federal, state, and local regulations relating to the protection of the environment has not had, and is not expected to have, a material effect upon the capital expenditures, earnings, or competitive position of Datapoint.

ITEM 2. *Properties.*

Datapoint's principal executive offices are located in San Antonio, Texas. Datapoint believes that its plants and offices are in good condition and are adequately equipped for their present use. Information regarding the principal plants and properties, excluding leases assigned or subleased, as of July 29, 1989 is as follows:

Location	Use	Approximate Facility Sq. Footage	Owned or Leased Land Area
San Antonio, Texas	Raw Land	-	Owned; 148 acres
San Antonio, Texas	Manufacturing	206,000	Owned; 14 acres
San Antonio, Texas	Office	144,000	Owned; 12 acres
San Antonio, Texas	Manufacturing, warehouse and office	293,000	Leased (a)
Gouda, Netherlands	Office	52,000	Owned; 1 acre

(a) Leases on facilities expire on various dates extending through December, 1991.

Additionally, at July 29, 1989, excluding leases assigned or subleased, Datapoint leased sales and service offices having an aggregate of 790,000 square feet in metropolitan areas throughout the world, pursuant to lease agreements which expire between 1989 and 2009. The aggregate annual rental of all of these sales and service offices is approximately $8.7 million and most of these leases are subject to rental increases under certain escalation provisions and renewals on similar terms.

ITEM 3. *Legal Proceedings.*

The Company received a favorable judgment entered August 31, 1988, in the patent infringement suit brought by Northern Telecom Inc. filed on June 29, 1982 in the United States District Court for the Northern District of Texas, Dallas Division. The action alleged damages exceeding $65.0 million. The judgment found the patent invalid and unenforceable but partially infringed and that the Company is not liable to Northern Telecom Inc. Northern Telecom Inc. has appealed and the Company is vigorously defending the appeal.

In September 1985, the Company and its directors, among other co-defendants, were sued in Delaware Chancery Court by a purported holder of the Company's 8-7/8% convertible subordinated debentures due 2006 who seeks to represent the class of such debenture holders. The suit alleges that the Company's spin-off to stockholders of IT, the Company's former domestic customer service subsidiary, was in default of the Company's obligations under the indenture entered into with respect to these debentures. The complaint seeks redemption of such debentures pursuant to the terms of the indenture, as well as assumption of debenture obligations by IT, rescission of the spin-off, and other relief. As of July 29, 1989, $78.7 million in principal amount of such debentures was outstanding. Based on the advice of counsel, the Company believes that the action is without merit and will vigorously defend the suit.

The Company's French subsidiary has been sued in France by Compagnie Internationale de Services en Informatique ("CISI"), a French corporation, alleging that the Company's ARCNET system violates a French patent on computer networks issued in 1974. The patent will expire in 1991. The case is before the Tribunal de Grande Instance de Creteil. CISI seeks an injunction against future sales of ARCNET systems and damages for past sales. The amount of the Company's potential liability, were CISI to prevail in the action, is not presently determinable but could be substantial. However, based upon the advice of counsel, the Company believes that the patent is invalid and that the suit is therefore without merit.

The Company is also a defendant in various other lawsuits generally incidental to its business. The amounts sought by the plaintiffs in some such cases are substantial and, if all such cases were decided adversely to the Company, the Company's aggregate liability might be material. However, the Company does not expect such an aggregate result.

ITEM 4. *Submission of Matters to a Vote of Security Holders.*

Not Applicable.

Executive Officers of the Registrant

The following information is submitted with respect to the executive officers of the Company as of September 13, 1989:

Name	Age	Position	Officer Since
A. B. Edelman	49	Chairman of the Board	1985
M. M. Michigami	42	President and Chief Executive Officer	1989
J. R. Barnes	50	Vice President, Technical Operations and Acting Vice President, Product Development	1988
D. P. Bynum	45	Vice President, Worldwide Marketing	1987
R. R. Dittrich	40	Vice President, U.S. Sales	1988
B. M. Gifford	51	Vice President, Northern Europe	1987
G. R. Laughead	36	Vice President, General Counsel and Corporate Secretary and Acting Director of Human Resources	1987
Y. Y. Le Roux	45	Vice President, Southern Europe	1987
L. D. Wickwar	47	Vice President, Customer Services	1983
K. R. Kamp	42	Corporate Controller and Acting Chief Financial Officer	1988

The officers named above serve until the next Board of Directors meeting immediately following the Annual Meeting of Stockholders.

Mr. Edelman joined the Company's Board of Directors as its Chairman in March 1985. For more than the past five years, Mr. Edelman has served as General Partner of Plaza Securities Company, a broker-dealer. From January 1977 through June 1984 he served as the General Partner of Arbitrage Securities Company, a broker-dealer; from June 1984 he has served as General Partner of Asco Partners, the sole general partner of Arbitrage thereafter.

Mr. Michigami joined the Company in August 1989 as President and Chief Executive Officer and a member of the Board of Directors. Prior to joining Datapoint, Mr. Michigami served from 1986 until 1989 as President of United Technologies Control Systems. During 1986, he served as Executive Vice President for Hamilton Standard Commercial and Industrial Controls. From 1983 until 1986, he was Director, Corporate Strategic Planning of United Technologies Corporation, with responsibility for overall strategic direction of the electronics operating units.

Mr. Barnes joined the Company as Vice President, Technical Operations in December 1988. From November 1981 to December 1988, Mr. Barnes was employed by Data General Corporation as Vice President and General Manager, Volume Products.

Mr. Bynum joined the Company as Vice President, Worldwide Marketing in November 1987, after serving the Company as a consultant since August 1987. From January 1986 until joining the Company, he was President of Intellisys Corporation, a software market research company. From July through December 1985, he was President of Zaisan Inc., a voice/data workstation manufacturer. From 1984 through June 1985, he was employed by Microcraft Corporation, a personal computer marketing company, first as Director of Manufacturing and then as Director of Operations.

Mr. Dittrich joined the Company as Vice President, U.S. Sales in February 1988. From 1983 to February 1988, Mr. Dittrich was employed by Philips Information Systems as Vice President, Eastern Operations.

Mr. Gifford joined the Company as Managing Director of its United Kingdom subsidiary in August 1981. In February 1987, Mr. Gifford was promoted to Vice President, Northern Europe.

Mr. Laughead has been employed by the Company for more than the past five years. He joined the Company as Senior Counsel, Corporate in November 1982. He was elected Corporate Secretary and promoted to Senior Counsel, Corporate and International in March 1985. In January 1987, Mr. Laughead was promoted to General Counsel. He was elected a vice president of the Company in February 1988.

Mr. Le Roux joined the Company as Managing Director of its French subsidiary in February 1984. In February 1987, Mr. Le Roux was promoted to Vice President, Southern Europe. Prior to joining the Company, he held various positions with Sperry Computer Systems, most recently as Director of Marketing, International from November 1981 to February 1984.

Mr. Wickwar has been employed by the Company for more than the past five years. Since joining the Company in 1979, Mr. Wickwar has held various positions in Engineering and Product Development. In 1983, Mr. Wickwar was promoted to vice president, and in September 1984 became Vice President, Development.

Mr. Kamp has been employed by the Company since 1984. In February 1988, he was promoted to Corporate Controller. Prior to this, he held various progressive positions within the Finance organization.

There is no family relationship between any of the executive officers of the Company.

PART II

ITEM 5. *Market for Registrant's Common Equity and Related Stockholder Matters.*

The information required by Item 5 is incorporated by reference to the information set forth under the caption "Quarterly Market Summary" in the Company's 1989 Annual Report to Stockholders.

ITEM 6. *Selected Financial Data.*

The information required by Item 6 is incorporated by reference to the information set forth under the caption "Selected Financial Data" in the Company's 1989 Annual Report to Stockholders.

ITEM 7. *Management's Discussion and Analysis of Financial Condition and Results of Operations.*

The information required by Item 7 is incorporated by reference to the information set forth under the caption "Management's Discussion and Analysis of Financial Condition and Results of Operations" in the Company's 1989 Annual Report to Stockholders.

ITEM 8. *Financial Statements and Supplementary Data.*

The information required by Item 8 and the Report of Ernst & Young Independent Auditors are incorporated by reference to the information set forth in the Consolidated Financial Statements and the Supplemental Information (Unaudited) in the Company's 1989 Annual Report to Stockholders.

ITEM 9. *Disagreements on Accounting and Financial Disclosure.*

Not Applicable.

PART III

ITEM 10. *Directors and Executive Officers of the Registrant.*

DIRECTORS

The Company has not yet set a date for its next annual meeting of stockholders. The Company's Board of Directors consists of seven members. Set forth below is certain information concerning the directors of the Company. These directors will seek re-election at the next annual meeting of stockholders.

DORIS D. BENCSIK, age 58, was Datapoint's Chief Operating Officer and a member of the Office of the President. Mrs. Bencsik resigned those positions in September 1987 and is currently an operations consultant. Mrs. Bencsik joined Datapoint in 1982 as Vice President-Engineering, became Vice President-Operations in August 1984 and Senior Vice President-Operations in January 1985. She became Executive Vice President and Chief Operating Officer and a director of Datapoint in November 1985. She became Acting Chief Executive Officer and President in January 1987 and became a member of the Office of the President in May 1987. She is a member of the Executive and Audit Committees. Mrs. Bencsik is also a director of Alliance Computer Systems Corporation and Charles River Data Systems Corporation.

ASHER B. EDELMAN, age 49, has been General Partner since July 1979 of Plaza Securities Company, a broker-dealer; General Partner since July 1984 of Asco Partners, the sole general partner of Arbitrage Securities Company, a broker-dealer; and General Partner from January 1977 through June 1984 of Arbitrage Securities Company. Mr. Edelman is a director, Chairman of the Board and Chairman of the Executive Committee of Intelogic Trace Inc.; a director, Vice Chairman of the Board and Chairman of the Executive Committee of Canal Capital Corporation; a director and President of Canran Corp., a General Partner of Canal-Randolph Limited Partnership (which is the successor liquidating partnership to Canal-Randolph Corporation); and a director of Bull Run Gold Mines Ltd. He became Chairman of the Board of Datapoint in March 1985 and is Chairman of the Executive Committee.

RAYMOND FRENCH, age 69, has been a director, Chairman of the Board and President since February 1984 of Canal Capital Corporation (formerly United Stockyards Corporation), a public real estate development, stockyard operation and securities and art investment company. He was General Partner of Canal-Randolph Limited Partnership from February 1985 to March 1987 and prior thereto was Chairman of the Board since June 1983 and a director and President for more than five years of Canal-Randolph Corporation, a real estate ownership and development company. Mr. French is also a director of Blue Ridge Estate Company, Big

Boulder Corporation, American Union Reinsurance Company and Dollar/Dry Dock Savings Bank. He became a director of Datapoint in March 1985. He is a member of the Audit, Management Compensation, and Stock Option Plan Committees.

DANIEL R. KAIL, age 54, is Executive Vice President and a director of Canal Capital Corporation. Mr. Kail also has been Managing Trustee of Management Assistance Inc. Liquidating Trust since January, 1986, and prior thereto had been a director, Executive Vice President and Chief Operating Officer since October 1984 of Management Assistance Inc., a computer manufacturing and servicing company. He became a director of Datapoint in March 1985. Mr. Kail is also a director of Intelogic Trace, Inc. He is Chairman of the Management Compensation and Stock Option Plan Committee.

CLARK R. MANDIGO, age 46, is President and Chief Executive Officer of Intelogic Trace, Inc. Mr. Mandigo was President of BHP Petroleum (Americas), Inc. (formerly Energy Reserves Group), an oil and gas exploration and production company, from 1983 to 1986. Mr. Mandigo was Executive Vice President-Administration of Energy Reserves Group from 1982 to 1983. He was Vice President, Secretary and General Counsel of Energy Reserves Group from 1976 to 1982. He became a director of Datapoint in May 1985. Mr. Mandigo is also a director of Intelogic Trace, Inc., Canal Capital Corporation and Physician Corporation of America.

MICHAEL M. MICHIGAMI, age 42, became Datapoint's President and Chief Executive Officer on August 14, 1989. Prior to joining Datapoint, Mr. Michigami served from 1986 until 1989 as President for United Technologies Control Systems. During 1986, he served as Executive Vice President for Hamilton Standard Commercial and Industrial Controls. From 1983 until 1986, he was Director, Corporate Strategic Planning of United Technologies Corporation, with responsibility for overall strategic direction of the electronics operating units with sales of $1.5 billion. From 1981 to 1983, he was employed by General Electric Credit Corporation as Manager of Strategic Planning. Prior to his employment with GECC, Mr. Michigami was employed by Booz, Allen & Hamilton, Inc. as Project Manager from 1977 to 1981, working in a consulting capacity for major United States and international firms. Mr. Michigami worked for Texas Instruments Incorporated, based in Nice, France, from 1974 to 1977, serving ultimately as Group Financial Administrator for the Consumer Electronics Group. In 1973, upon completing military service, he served as European Controller for Data General Europe in Paris. In August 1989, he became a director of Datapoint and a member of the Executive Committee.

DWIGHT D. SUTHERLAND, age 66, has been Partner and Chief Executive Officer for more than five years of Sutherland Lumber Co., a retail lumber chain. Mr. Sutherland is also a director of

Canal Capital Corporation, Intelogic Trace, Inc., Boatman's Bancshares, Inc., Boatman's First National Bank of Kansas City and the Automobile Club of Missouri. He became a director of Datapoint in March 1985. He is Chairman of the Audit Committee and a member of the Management Compensation and Stock Option Plan Committee.

Audit, Compensation and Nominating Committees

Datapoint has standing Audit and Management Compensation and Stock Option Plan Committees of the Board of Directors, but does not have a Nominating Committee. The members of those Committees have been identified above.

The Audit Committee annually recommends to the Board of Directors independent auditors for Datapoint and its subsidiaries; meets with the independent auditors concerning the audit; evaluates non-audit services and the financial statements and accounting developments that may affect Datapoint; meets with management concerning matters similar to those discussed with the outside auditors; and makes reports and recommendations to the Board of Directors and Datapoint's management and independent auditors from time to time as it deems appropriate. This Committee met two times during the fiscal year ended July 29, 1989.

The Management Compensation and Stock Option Plan Committee makes salary recommendations regarding senior management to the Board of Directors and administers Datapoint's Bonus and Stock Option Plans described below. The Management Compensation and Stock Option Plan Committee met six times during the fiscal year ended July 29, 1989.

Meetings of the Board of Directors and Committees

The Board of Directors met eight times during the fiscal year ended July 29, 1989, and, during such fiscal year, each director attended (a) each of the meetings of the Board of Directors, except Messrs. Mandigo and Sutherland and Mrs. Bencsik, who attended 87% of the board meetings and (b) each of the meetings held by all committees of the Board on which he served, during his tenure as director, except Messrs. French and Sutherland who attended 83% of their Committee meetings.

Information with respect to executive officers of the Company is set forth in Part I hereof.

ITEM 11. *Executive Compensation.*

Compensation of Executive Officers and Directors

Executive Officers

The following table sets forth all aggregate cash compensation paid by Datapoint and its subsidiaries for service in all capacities for the fiscal year ended July 29, 1989, with respect to each of the five highest paid executive officers whose aggregate remuneration exceeded $60,000 and all executive officers of Datapoint as a group. The information set forth below in this section with respect to executive officers and directors does not include any data with respect to any portion of the applicable period during which the person was not an executive officer or director of Datapoint.

CASH COMPENSATION TABLE-FISCAL YEAR 1989

Name of Individual or Number of Persons in Group	Capacities in Which Served	Cash Compensation(1)
R. J. Potter.....	President and Chief Executive Officer	$ 457,230
Y. Y. Le Roux.....	Vice President, Southern Europe	$ 212,225
B. M. Gifford.....	Vice President, Northern Europe	$ 184,695
A. B. Edelman.....	Chairman of the Board	$ 153,508
J. R. Barnes.....	Vice President, Technical Operations	$ 149,250(2)
All Executive Officers of Datapoint as a group (13 persons, including those named above)...		$2,096,066

(1) Amounts exclude bonuses for fiscal year ended July 30, 1988 that were paid after the close of the 1988 fiscal year and reported in the 1988 Proxy Statement. Amounts paid to certain of the above individuals as a bonus for services during fiscal year 1989 were as follows: Dr. Potter, $150,000; Mr. Le Roux, $42,000; Mr. Gifford, $60,000; Mr. Edelman, -0-; Mr. Barnes, $50,000; all executive officers as a group, $418,000. Excluded is $170,114 paid to four other executive officers as reimbursement of relocation expenses. Compensation also excludes $121,945 in severance payments made to two other officers during such fiscal year.

(2) Amount represents cash compensation received by Mr. Barnes since December 23, 1988, the date of his employment with the Company.

The amounts shown in the tables above as cash compensation exclude certain expenditures by Datapoint and its subsidiaries which are or may be deemed to be of some personal benefit to executive officers. Datapoint, after reasonable inquiry, is unable to determine how much of these excluded expenditures were not directly related to performance of Datapoint's business activities, but it believes that this amount, in the applicable fiscal year, would not exceed the lesser of 10% of cash compensation or $25,000 for any listed officer or for the average of all executive officers of Datapoint, as a group.

Directors

Directors who are employees of Datapoint receive no additional compensation for serving on the Board of Directors or its committees. Each director who is not an employee of Datapoint receives fees as follows: Each non-employee director receives an annual fee of $15,000, payable in quarterly installments. Executive Committee members receive an additional $5,000 annual fee. Committee Chairmen receive an additional $2,000 annual fee. Board members serving on more than one committee receive an additional $1,000 annual fee. Each non-employee director also receives a fee of $750 for each Board meeting attended, $500 for each committee meeting attended and $500 for attendance at each meeting on Datapoint business other than a Board or committee meeting. Each non-employee director of Datapoint is, at Datapoint's expense, provided with $50,000 of group term life insurance and $250,000 accidental death insurance. Each non-employee director of Datapoint has the option to purchase, at his expense, coverage for himself and his dependents under Datapoint's group medical and dental insurance plan. There was no cost to Datapoint for such benefits for all non-employee directors for the fiscal year ended July 29, 1989.

Datapoint maintains a retirement plan and a retirement medical care plan to cover non-employee Board members. Both plans presently are purely contractual rather than funded, and are self-insured except that retirees are required to participate in Medicare Parts A and B. The retirement plan provides for a maximum benefit equal to a Board member's annual retainer in effect on the date of retirement. A partial benefit will be paid directors with less than five years' service, and a full benefit will be paid to directors with five or more years of service. The benefit will be payable for the greater of ten years or life, and in the event a retiree should die within ten years of retirement, the remaining benefit will be paid to his estate. The retirement medical care plan affords non-employee Board members, upon retirement, benefits equivalent to those of non-retired employees under Datapoint's group medical plan.

Stock Options

Datapoint issued stock options during fiscal year 1989 to officers and other key employees under its 1983 and 1986 Employee Stock Option Plans. The 1983 Plan authorized the purchase of 600,000 Shares upon the exercise of options granted under the Plans. The 1986 Plan authorized the purchase of 1,000,000 Shares. As of July 29, 1989, 278,384 Shares remained available for the grant of options under the 1983 Plan, and 325,000 Shares remained available for the grant of options under the 1986 Plan.

The Employee Plans are administered by the Management Compensation and Stock Option Committee of the Board of Directors ("Committee"), which is comprised of at least three Board members not eligible to receive options under the Employee Plans. The Employee Plans provide for the grant of non-qualified stock options, incentive stock options, and stock appreciation rights. The Committee may grant options exercisable over time or immediately. Options expire, if not exercised, at the conclusion of their ten-year terms. The Committee is empowered to establish conditions upon the exercisability of options. Options cannot become exercisable after termination of employment, but in most cases options exercisable prior to termination of employment remain exercisable for a period of six months.

The exercise price is required to be at least 75% of the fair market value of Datapoint Common Stock as of the date of the grant of an option; and for incentive options, the price must be at least fair market value. Under the 1986 Plan, options may be granted allowing an option holder to deliver Datapoint Common Stock in payment of the exercise price of a option. The 1986 Plan authorizes the Committee to cancel and reissue options with the consent of the option holder. To date, Datapoint has issued no stock appreciation rights.

Datapoint has also issued stock options to purchase its Common Stock to members of its Board of Directors, pursuant to its 1985 Director Stock Option Plan. The 1985 Director Plan provides for a one-time grant of a non-incentive stock option to purchase at fair market value, as of the date of the grant, 25,000 Shares to each director and an additional 50,000 Shares to any newly elected Chairman of the Board. Options granted under the Plan are exercisable when granted and expire on a date fixed by the Committee, which may not be later than the fifth anniversary of the date of grant.

Options under each plan described above terminate as a result of an optionholder terminating his qualifying status with Datapoint. If such termination occurs other than by reason of retirement, disability or death, each option held terminates on the earlier of its stated termination date or 180 days after the disqualifying event. If the disqualifying event occurs by reason

of death, retirement or disability, the option terminates on the earlier of its termination date or one year after such event.

Stock Option Table

The following table shows as to all executive officers as a group (i) the number of options to purchase Datapoint Common Stock granted July 31, 1988 through July 29, 1989, (ii) the average exercise price thereof, and (iii) the net value of shares (market value on date of exercise less the exercise price) realized during the fiscal year upon exercise of any options held by such persons. None of the named executive officers were granted or exercised any options during such period.

	All Executive Officers as a group
Granted July 31, 1988 to July 29, 1989:	
Number of Options.....	135,000
Average Per Share Exercise Price.....	$4.3125
Exercised July 31, 1988 to July 29,1989:	17,534
Net Value realized in Shares (market value less exercise price)*....	$32,680

*Market Value based on closing price of Datapoint Common Stock for New York Stock Exchange-Composite Transactions as reported by the Southwest Edition of The Wall Street Journal for the later of (a) the exercise date or (b) the date the recipient became entitled without further contingencies to retain such stock.

Employment Agreements

On May 27, 1987, Datapoint entered into an employment agreement with Dr. Potter for employment as Chief Executive Officer. The agreement provided that Dr. Potter was to receive an annual base salary of $300,000 and an annual bonus based on a target of $300,000, to be adjusted according to Datapoint's performance. On August 11, 1989, the Company terminated Dr. Potter's employment. In accordance with his employment agreement, Dr. Potter received a lump sum of 18 months of base salary and will continue to receive the perquisites and benefits associated with his employment for such period. Dr. Potter retains an option to purchase 200,000 and 25,000 Shares at purchase prices of $5.1875 and $5.7500 per share until February 11, 1990.

On August 14, 1989, Datapoint entered into a three-year employment agreement with Mr. Michael Michigami that governs his employment as Chief Executive Officer. The agreement provides

that Mr. Michigami is to receive an annual base salary of $350,000 and an annual bonus equal to 1 1/2% of the Company's operating income in excess of $5 million. For fiscal year 1990, a minimum bonus of $50,000 is guaranteed. Upon execution of his employment agreement, a $100,000 initial bonus was paid to Mr. Michigami.

In connection with his employment, Datapoint granted Mr. Michigami nonqualified options to purchase 442,169 Shares at a purchase price of $4.50 per share; options for 267,169 of such Shares were granted under the terms of Datapoint's 1986 Employee Stock Option Plan, while options for 175,000 of such Shares were granted under the terms of Datapoint's 1983 Employee Stock Option Plan. The nonqualified options may not be exercised prior to July 28, 1990; thereafter, not more than 50% of the options may be exercised prior to July 28, 1991, and not more than 75% of the options may be exercised prior to July 28, 1992, after which all such options may be exercised. The $4.50 exercise price for the foregoing options for 442,169 Shares represent an average 13.253% discount from the market price of Datapoint's stock on the date of the grant, and in the aggregate represents a total discount of $303,991 from the total market price of such Shares on the date of grant. Mr. Michigami was also granted an incentive stock option to purchase 57,831 Shares at a purchase price of $5.1875 per share, under the terms of Datapoint's 1986 Employee Stock Option Plan. The incentive stock options may not be exercised prior to July 28, 1990; thereafter, not more than 33% of the options may be exercised prior to July 28, 1991, and not more than 66% of the options may be exercised prior to July 28, 1992, after which all such options may be exercised. Generally, all of Mr. Michigami's employee stock options remain exercisable until July 28, 1999, unless terminated earlier under certain circumstances in accordance with the terms of their respective plans. Under the terms of the Company's 1985 Director Stock Option Plan, upon becoming a director of the Company, Mr. Michigami received an option to purchase 25,000 Shares at a price of $5.1875 per share immediately exercisable until August 18, 1994.

Mr. Michigami's employment agreement provides that if his employment is terminated for reasons other than "cause" (as defined therein to involve demonstrable dishonesty or moral turpitude relating to the Company's business), he is entitled to receive the balance of his salary in installments, plus any earned but unpaid bonus, and that all of his stock options will become immediately exercisable.

On February 1, 1984, Datapoint entered into an employment agreement with Mr. Le Roux as managing director of the French subsidiary which provides for his employment for an indefinite term. The agreement was amended on July 30, 1985. This agreement, as amended, guarantees Mr. Le Roux certain perquisites, and provides for the payment of one year's salary in the event Mr. Le Roux's employment is terminated by Datapoint.

On July 1, 1981, Datapoint entered into an employment agreement with Mr. Gifford as managing director of the United Kingdom subsidiary which provides for his employment for an indefinite term. The agreement guarantees Mr. Gifford certain perquisites, and requires three months notice in the case of termination by Mr. Gifford, and six months notice in case of termination by Datapoint.

As of December 23, 1988, the Company entered into an employment agreement with Mr. Barnes which provides for his employment for an indefinite term with functions, duties and responsibilities substantially equivalent to those in effect on the date of the agreement. In the event the Company terminates Mr. Barnes employment without "cause" (defined principally as fraud, theft or embezzlement at the expense of the Company or a material breach of the agreement), the agreement provides that he shall be entitled to receive his full salary (including the amount of his preceding bonus award) and benefits for a period of one year from such termination.

Bonus Plan

The Board of Directors set aside funds for the payment of special performance bonuses for fiscal 1989. The actual amounts paid are reported in the Cash Compensation Table.

Executive Benefit Plan

Effective November 1, 1980, the Board of Directors adopted the Executive Benefit Plan ("EBP") in order to provide certain insurance benefits to a select group of management employees who contribute materially to the continued growth, development and future business success of Datapoint. The Management Compensation and Stock Option Plan Committee of the Board of Directors selects the EBP participants and is responsible for the administration of the plan. In general, in the event a EBP participant dies while in Datapoint's employ, his designated beneficiaries will receive an amount equal to three or four times the participant's base salary, payable in monthly installments over six or eight years. To meet its obligations under the EBP, Datapoint has obtained life insurance policies on the life of each participant. Datapoint paid the following amounts in connection with the EBP from August 2, 1988 through July 29, 1989: Dr. Potter, $6,400; Mr. Le Roux, $-0-; Mr. Dittrich, $2,700; Mr. Gifford, $-0-; Mr. Edelman, $-0-; and all executive officers as a group, $28,929.

In addition to benefits under the Executive Benefit Plan, the Company also obtains additional medical insurance for U.S. based officers that covers essentially all medical expenses not otherwise covered by the Company's group medical insurance plan provided to all employees. The Company paid the following amounts

as premiums for the additional medical insurance coverage for fiscal 1989: Dr. Potter, $3,360; Mr. Le Roux, $-0-; Mr. Edelman, $-0-; Mr. Dittrich, $-0-; Mr. Gifford, $-0-; and all executive officers as a group, $24,360.

401(k) Profit Sharing Plan

The Company adopted, effective January 1, 1988, a profit sharing plan with a cash or deferred arrangement under Section 401(k) of the Internal Revenue Code of 1986, as amended. All employees of the Company and its subsidiaries who have been employed for at least 12 months are entitled to participate. Each participant may voluntarily contribute to the plan on an annual basis from 1% to 5% of his compensation, up to the limit established annually by Treasury Regulations. The Company may make matching contributions, at its discretion, which to date have been 25% of the employee's voluntary contribution. The Company may also make profit sharing contributions, in addition to the matching contribution, as of fiscal year end. Each participant is always entirely vested in his voluntary contribution (including any rollovers) and vests as to matching and discretionary contributions at the rate of 25% for each year of service (whether before or after adoption of the plan), becoming 100% vested at the end of four years.

Each participant may direct investment of the contributions allocable to his account among five investment alternatives, including a fund that purchases the Company's stock. Distribution may occur upon the participant's retirement, death, disability, termination of employment or reaching age 59 1/2, and must occur upon a participant reaching age 70 1/2. Allocations are maintained according to provisions of the plan and applicable provisions of the Internal Revenue Code. During the fiscal year ended July 29, 1989, Datapoint contributed the following amounts to the plan to the named individuals, including profit sharing attributable to profits earned in the fiscal year ended July 30, 1988: Dr. Potter, $7,205; Mr. Le Roux, $-0-; Mr. Edelman, $3,508; Mr. Dittrich, $637; and all executive officers as a group, $29,377.

ITEM 12. *Security Ownership of Certain Beneficial Owners and Management.*

SECURITY OWNERSHIP OF MANAGEMENT

As of September 13, 1989, the directors and officers of the Company as a group beneficially owned approximately 42.6% of the Company's Shares.(1)

Name of Director	Common Stock Beneficially Owned(2)	Percent of Class
Doris D. Bencsik.....	25,154	*
Asher B. Edelman.....	4,048,336(3)	40.1%
Raymond French.....	27,248(4)	*
Daniel R. Kail.....	25,000(5)	*
Clark R. Mandigo.....	27,300(5)	*
Michael M. Michigami.....	25,000	
Dwight D. Sutherland.....	29,447(5)	*
Executive Officers and Directors of Datapoint as a Group (15 persons).....	4,306,611	42.6%

*Indicates less than 1% ownership.

The directors had sole voting and investment power over the shares listed above except as otherwise noted.

(1) As of September 13, 1989, officers and directors of Datapoint owned beneficially principal amounts of Datapoint's 8 7/8% Convertible Subordinated Debentures due June 1, 2006 as follows: Mr. Kail, $10,000 and officers and directors as a group, $10,000. Ownership of such debentures includes a right to convert them into shares; shares issuable upon any such conversion have been excluded from reported ownership of Common Stock.

(2) The information set forth above as to shares owned by the officers and directors as a group is current as of September 13, 1989, and includes shares which may be deemed to be beneficially owned by such persons by reason of stock options currently exercisable or which may become exercisable within 60 days of that date. The number of shares deemed to be beneficially owned by reason of such options are as follows: Mr. Edelman, 75,000 shares; Messrs. French, Kail, Mandigo, Michigami, Sutherland and Mrs. Bencsik, 25,000 shares each; and officers and directors of Datapoint as a group, 321,966 shares.

(3) As the controlling general partner of each of Plaza Securities Company ("Plaza"), A.B. Edelman Limited Partnership and Helix Partners, the controlling general partner of Citas Partners which is the sole general partner Felicitas Partners, L.P.,

and as sole stockholder of AAA Jetstar, Inc. and of Aile Blanche, Inc., Mr. Edelman may be deemed to own beneficially the 281,840, 518,693, 239, 27,316, 10,000, and 10,000 shares held, respectively, by each of such entities for purposes of Rule 13d-3 under the Securities Exchange Act of 1934, and these shares are included in this listed ownership. Also included are the 5,000 shares Mr. Edelman owns directly and 352,363 shares owned by Canal Capital Corporation ("Canal") and 2,743,385 shares owned by IT, in which companies Mr. Edelman and various persons and entities with which he is affiliated own interests. By virtue of investment management agreements between A.B. Edelman Management Company Inc. ("Edelman Management") and each of Canal and IT, Edelman Management has the authority to purchase, sell and trade in securities on behalf of Canal and IT. Edelman Management therefore may be deemed to be the beneficial owner of the 352,363 shares owned by Canal and the 2,743,385 shares owned by IT. Asher B. Edelman is the sole stockholder of Edelman Management and these shares are included. Also included are the 24,500 shares owned by Mr. Edelman's spouse, Maria Regina M. Edelman. As a trustee of the Canal Retirement Plan and the IT Retirement Income Plan, Mr. Edelman may be deemed to own beneficially, and share voting and investment power over, the respective 7,655 and 3,588 shares owned by such plans, which shares are excluded. Also excludes 4,675 shares beneficially owned by Mr. Edelman's daughters in accounts for which their mother, Penelope C. Edelman, is the custodian and 2,500 shares owned directly by Penelope C. Edelman. Mr. Edelman disclaims beneficial ownership of these shares.

In addition, Mr. Edelman beneficially owns 387,748 shares of $4.94 Exchangeable Preferred Stock ("Preferred Stock") of the Company. As the controlling general partner of each of Plaza, A.B. Edelman Limited Partnership and Helix Partners, and as the controlling general partner of Citas Partners which is the sole general partner of Felicitas Partners, L.P., Mr. Edelman may be deemed to own beneficially the 182,663, 51,039, 190, and 4,896 shares of Preferred Stock held, respectively, by each of such entities for purposes of Rule 13d-3 under the Securities Exchange Act of 1934, and these shares are included in the amount stated in the first sentence of this paragraph. Also included are the 62,058 shares of Preferred Stock owned by Canal and the 85,000 shares of Preferred Stock owned by Mr. Edelman's spouse, Maria Regina M. Edelman. As a trustee of the IT Retirement Income Plan, Mr. Edelman may be deemed to own beneficially, and share voting and investment power over, the 2,853 shares of Preferred Stock owned by such plan, which shares are excluded. Also excluded are the 1,330 shares of Preferred Stock owned by Mr. Edelman's daughters in accounts for which their mother, Penelope C. Edelman, is the custodian. Mr. Edelman disclaims beneficial ownership of these excluded shares.

(4) Mr. French is Chairman of the Board of Canal, which owns 352,363 shares of Common Stock and 62,058 shares of Preferred Stock as of September 13, 1989. Mr. French is a trustee of the Canal Retirement Plan which owns 7,655 shares of Common Stock. Mr. French may be deemed to own beneficially, and share voting and investment power over, such Common Stock and Preferred Stock, but Mr. French disclaims beneficial ownership of such Common Stock and Preferred Stock, which are excluded.

(5) Messrs. Mandigo and Sutherland are directors of Canal, and Mr. Kail is an Executive Vice President and a director of Canal, which owns 352,363 shares of Common Stock and 62,058 shares of Preferred Stock as of September 13, 1989. Messrs. Kail, Mandigo and Sutherland are directors of IT which owns 2,743,385 shares of Common Stock and 85,000 shares of Preferred Stock as of September 13, 1989. These directors disclaim beneficial ownership of this Common Stock and Preferred Stock.

SIGNIFICANT STOCKHOLDERS

In addition to the percentage of the Company's shares which may be deemed to be beneficially owned by Mr. Edelman, the following table sets forth other entities which, based on filings with the Securities and Exchange Commission or information provided to the Company, are the beneficial owners of more than 5% of the Company's shares. Substantial purchases of shares by Mr. Edelman and persons affiliated with him were made on September 11 and 12, 1989, and the Company is unable to determine whether the number of shares indicated below is current as of September 13, 1989.

Title of Class	Name and Address of Beneficial Owner	Amount and Nature of Beneficial Ownership	Percent of Class
Common Stock, $0.25 par value	TCW Asset Management 400 South Hope Street, Suite 500 Los Angeles, CA 90071	720,100(1)	7.1%
Common Stock, $0.25 par value	Columbia Savings and Loan 8840 Wilshire Boulevard Beverly Hills, CA 90211	536,817(2)	5.9%

(1) As reported in a Schedule 13F, filed with the Commission effective June 30, 1989.
(2) As reported in a Schedule 13F, filed with the Commission effective June 30, 1989.

ITEM 13. *Certain Relationships and Related Transactions.*

CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

On February 20, 1986, Datapoint entered into an agreement with Arbitrage Securities Company ("Arbitrage") whereby Arbitrage provided investment management and financial advisory services to the Company. On October 23, 1988, Arbitrage assigned the management agreement to A.B. Edelman Management Company, with the Company's consent. Fees charged under the agreement are computed quarterly and are equal to 25% of the excess of net realized gains from transactions in securities and any interest and dividends earned in the portfolio over interest and short dividend expenses incurred and net unrealized losses in securities positions. Realized losses in excess of realized gains in any quarter are carried over to subsequent quarters and applied against realized gains for such subsequent quarter. Brokerage fees incurred as a result of investing activities are borne by the Company. Management fees of $95,000 were paid under this agreement in respect of the Company's 1989 fiscal year.

Mr. Edelman is Chairman and Messrs. Kail, Mandigo and Sutherland are directors of IT, comprising four of IT's eight directors. Mr. Mandigo is also President and Chief Executive Officer of IT. As such, they receive compensation and/or benefits from IT. Also, these four directors may be deemed to beneficially own approximately 12% of IT's common stock. In addition, they and certain officers of Datapoint have options to purchase shares of IT common stock equal in the aggregate to approximately 3% of the amount presently outstanding.

Mr. Kail is also a director of the Company's Japanese distributor, CJK Company, Ltd. During fiscal 1989, CJK paid the Company $2,925,097 for products purchased from the Company. Mr. Kail has no financial interest in such transactions.

Since the spin-off of IT, Datapoint has engaged in, and continues to engage in, various transactions with IT. Certain of these transactions result from the spin-off, such as the need to continue to share certain services and the sublease of space which could not otherwise be assigned to IT. All such transactions are billed to IT by Datapoint at its cost. All other transactions between Datapoint and IT have been pursuant to a master maintenance agreement entered into at the time of the spin-off and relate to the ordinary business operations of both Datapoint and IT. For the fiscal year ended July 29, 1989, IT paid Datapoint approximately $2,223,000 for equipment and field support spares, royalties and expenses, and Datapoint paid IT approximately $593,000, primarily for services and sales.

On June 4, 1988, Datapoint entered into a Purchase and Remarketing Agreement with Texcom Management Services, Inc. (Texcom), an indirect wholly-owned subsidiary of IT, whereby Texcom would purchase Datapoint's interest in equipment leased by Datapoint to Datapoint's customers. As of July 29, 1989, Datapoint had recorded $2,570,000 in sales revenue under this Agreement.

On occasion, the Company participates in investment groups consisting primarily of parties affiliated with Mr. Edelman. The Company shares in cost incurred by the groups, primarily investment banking and legal fees, on a pro rata basis generally based on its relative percentage ownership. Members of the Board of Directors have from time to time participated in investment groups in which the Company is also a participant and may continue to do so in the future.

PART IV

ITEM 14. *Exhibits, Financial Statement Schedules and Reports on Form 8-K.*

(a)1 Financial Statements

The following financial statements are incorporated by reference under Part II, Item 8 from the Registrant's 1989 Annual Report to Stockholders:

Consolidated Statements of Operations for the Fiscal Years 1989, 1988 and 1987

Consolidated Balance Sheets as of July 29, 1989 and July 30, 1988

Consolidated Statements of Cash Flows for the Fiscal Years 1989, 1988 and 1987

Notes to Consolidated Financial Statements

Report of Ernst & Young Independent Auditors

(a)2 Financial Statement Schedules

Schedule I - Marketable Securities - Other Investments

Schedule VIII - Valuation and Qualifying Accounts and Reserves

Schedule IX - Short-Term Borrowings

Schedule X - Supplementary Consolidated Statements of Operations Information

All other schedules are omitted since they are either not applicable or the required information is shown in the Company's financial statements or notes thereto.

Individual financial statements of the Company are omitted because the Company is primarily an operating company and all subsidiaries included in the Consolidated Financial Statements being filed, in the aggregate, do not have minority equity interest and/or indebtedness to any person other than the Company or its consolidated subsidiaries in amounts which together exceed 5% of the total consolidated assets as shown by the most recent year-end Consolidated Balance Sheet.

(a)3 Exhibits

The exhibits listed on the accompanying index to exhibits are filed as part of this report.

(b) No reports on Form 8-K were filed by the Company.

INDEX TO EXHIBITS

Exhibit Number	Description of Exhibits	Sequentially Numbered Pages
(3)(a)	--Certificate of Incorporation of Datapoint Corporation, as amended (filed as Exhibit (3)(a) to the Company's Annual Report on Form 10-K for the year ended August 1, 1987, and incorporated herein by reference).	
(3)(b)	--Bylaws of Datapoint Corporation, as amended (filed as Exhibit 3 to the Company's Form 8-K dated September 18, 1989, and incorporated herein by reference).	
(4)(a)	--Debentureholder Notice of Adjustment to Conversion Rate, dated July 11 1985, under Indenture dated as of June 1, 1981, between Datapoint Corporation and Continental Illinois National Bank and Trust Company of Chicago, as Trustee, providing for 8-7/8% Convertible Subordinated Debentures Due 2006 (filed as Exhibit (4)(a) to the Company's Annual Report on Form 10-K for the year ended July 27, 1985 and said Indenture filed as Exhibit 4 to the Company's Registration Statement on Form S-16 (No. 2-72395), each incorporated herein by reference).	
(4)(b)(1)	--Supplemental Indenture dated as of March 15, 1985 between Datapoint Corporation and Centerre Trust Company of St. Louis (formerly St. Louis Union Trust Company), providing for Datapoint's assumption of the covenants, conditions and obligations under the Indenture dated as of September 25, 1980, between Inforex Inc. and St. Louis Union Trust Company as Trustee, providing for Debenture Notes Bearing No Interest Due March 25, 1989 (filed as Exhibit T3C to the Second Amended Form T-3 filed with the Securities and Exchange Commission on August 22, 1980 under the Trust Indenture Act of 1939 as Commission File Number 22-10683 by Inforex, Inc.	

Exhibit Number	Description of Exhibits	Sequentially Numbered Pages
	effective September 25, 1980, incorporated herein by reference).	
(4)(b)(2)	--Form of Indenture between Datapoint Corporation and Manufacturers Hanover Trust Company as trustee, providing for 13% subordinated notes to be issued on or after January 15, 1989 should Registrant's $4.94 Exchangeable Preferred Stock be called for exchange (filed as Exhibit T3C to Amendment No. 2 to Form T-3 filed under the Trust Indenture Act as Commission File Number 22-162-14 effective December 2, 1986 and incorporated herein by reference).	
(4)(c)	--Certificate of Designation, Preferences, Rights and Limitations of Series of $4.94 Exchangeable Preferred Stock (filed as Exhibit (4)(c) to the Company's Annual Report on Form 10-K for the year ended August 1, 1987 and incorporated herein by reference).	
(10)(a)	--1977 Non-Qualified Stock Option Plan for Employees (contained in the prospectus included in Post Effective Amendment No. 4 to the Company's Registration Statement No. 2-60374 and incorporated herein by reference).	
(10)(b)	--1983 Employee Stock Option Plan (filed as Exhibit (4)(a)(4) to the Company's Registration Statement on Form S-8 dated November 9, 1983 and incorporated herein by reference).	
(10)(c)	--1985 Director Stock Option Plan (filed as Exhibit (10)(i) to the Company's Annual Report on Form 10-K for the year ended August 1, 1987 and incorporated herein by reference).	

Exhibit Number	Description of Exhibits	Sequentially Numbered Pages
(10)(d)	--Agreement for Transfer of Assets and Liabilities in Exchange for Stock, dated as of June 28, 1985, between the Company and Intelogic Trace, Inc. (filed as Exhibit (10)(a) to the Company's Current Report on Form 8-K dated July 28, 1985 and incorporated herein by reference).	
(10)(e)	--Master Maintenance Agreement, dated as of June 28, 1985, between the Company and Intelogic Trace, Inc. (filed as Exhibit (10)(b) to the Company's Current Report on Form 8-K dated July 28, 1985 and incorporated herein by reference).	
(10)(f)	--Agreement between Arbitrage Securities Company and Datapoint Corporation, as amended.	
(10)(g)	--1986 Employee Stock Option Plan (filed as Exhibit (10)(h) to the Company's Annual Report on Form 10-K for the year ended August 1, 1987 and incorporated herein by reference).	
(10)(h)	--Indemnity Agreements with Officers and Directors (filed as Exhibit (10)(f) to the Company's Annual Report on Form 10-K for the year ended August 1, 1987 and incorporated herein by reference).	
(10)(i)	--Employment Agreement with J. R. Barnes.	
(11)	--Computation of Consolidated Loss per Common Share.	
(13)	--Datapoint Corporation's 1989 Annual Report to Stockholders is included as an Exhibit hereto for the information of the Securities and Exchange Commission, and except for those portions of such Annual Report specifically incorporated by reference elsewhere herein, such Annual Report is deemed not to be filed as a part of this report.	

Exhibit Number	Description of Exhibits	Sequentially Numbered Pages
(22)	--Subsidiaries of Datapoint Corporation.	
(24)	--Consent of Ernst & Young.	
(25)	--Powers of Attorney.	

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

DATAPOINT CORPORATION
(Registrant)

BY: /s/ MICHAEL M. MICHIGAMI
Michael M. Michigami
President and Chief Executive Officer

DATED: October 25, 1989

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the Registrant and in the capacities and on the dates indicated.

Signature	Title	Date
/s/ MICHAEL M. MICHIGAMI (Michael M. Michigami)	Director and President Chief Executive Officer (Principal Executive Officer)	October 25, 1989
/s/ Kenneth R. Kamp (Kenneth R. Kamp)	Corporate Controller and Acting Chief Financial Officer (Principal Accounting Officer)	October 25, 1989

Michael M. Michigami, pursuant to powers of attorney which are being filed with this report, has signed below as attorney-in-fact for the following directors of the Registrant:

Doris D. Bencsik
Asher B. Edelman
Raymond French
Daniel R. Kail
Clark R. Mandigo
Dwight D. Sutherland

/s/ MICHAEL M. MICHIGAMI
(Michael M. Michigami)

October 25, 1989

Schedule I

DATAPOINT CORPORATION AND SUBSIDIARIES

Marketable Securities - Other Investments
(In thousands)

Name of Issuer and Title of Each Issue	Number of Shares or Units -- Principal Amounts of Bonds and Notes	Cost of Each Issue	Market Value at Year End	Amount at Which Carried in the Balance Sheet
Year ended July 29, 1989:				
Temporary Investments				
Time deposits - U.S. dollars	$ 8,236	$ 8,236	$ 8,236	$ 8,236
Marketable Securities				
Corporate securities (by industry):				
Storehouse, PLC	6,783,000	$23,069	$16,415	$16,415
Retail	various	4,141	4,272	4,272
Computers	various	3,833	3,431	3,431
Transportation	various	3,735	3,880	3,880
Manufacturing	various	3,663	2,808	2,808
Livestock	various	3,152	2,972	2,972
Other	various	6,572	6,540	6,540
Total marketable securities		$48,165	$40,318	$40,318

Schedule VIII

DATAPOINT CORPORATION AND SUBSIDIARIES

Valuation Accounts and Reserves
(In thousands)

Classification	Balance at Beginning of Year	Charged to Costs and Expenses	(a) Charged (to) from Other Accounts	(b) Other Additions (Deductions)	Balance at End of Year
Allowance for doubtful accounts:					
Year ended July 29, 1989	$ 4,103	$ 1,935	$ (17)	$(1,200)	$ 4,821
Year ended July 30, 1988	$ 5,090	$ 524	$ 142	$(1,653)	$ 4,103
Year ended August 1, 1987	$ 4,218	$ 1,414	$ 933	$(1,475)	$ 5,090

(a) Transfers to and from other balance sheet reserve accounts.

(b) Accounts written-off net of recoveries and translation adjustments.

Schedule IX

DATAPOINT CORPORATION AND SUBSIDIARIES

Short-Term Borrowings
(In thousands, except interest rates)

Type of Short-Term Borrowing	1989	1988	1987
Payable to Banks: (a)			
Balance at end of period	$ 9,481	$ 11,404	$ 8,182
Weighted average interest rate	14.3%	10.2%	11.3%
Maximum amount outstanding during the period	$ 15,258	$ 11,508	$ 9,713
Average amount outstanding during the period (b)	$ 12,332	$ 8,615	$ 8,392
Weighted average interest rate during the period (c)	14.9%	12.6%	10.4%

(a) Payables to banks are short-term debt instruments incurred by international subsidiaries and are payable in foreign currencies.

(b) Computed by taking the average of the end-of-month balances for the 13-month period ended July of each respective year.

(c) Computed by taking actual interest expense divided by average short-term debt outstanding.

Schedule X

DATAPOINT CORPORATION AND SUBSIDIARIES

Supplementary Consolidated Statements of Operations Information
(In thousands)

Item	1989	1988	1987
Maintenance and repairs	$ 4,435	$ 5,051	$ 6,692
Amortization of intangible assets	$ 4,586	$ 4,594	$ 4,754
Advertising costs	$ 6,366	$ 7,978	$ 6,605

SALES OFFICES

UNITED STATES

Sales offices are located in principal cities throughout the United States.

INTERNATIONAL LOCATIONS

EUROPE:

Austria
Beyerle Edv-Systeme Ges M.B.H., Vienna; Netpoint Computers M.B.H. Gaenserndorf

*Belgium
Datapoint Belgium S.A., Brussels

Denmark
Scanvest Management Systemer A/S, Brondby

*Fed. Rep. of Germany
Datapoint Deutschland GmbH, Frankfurt

Finland
Datapoint OY/A LAN Systems OY., Helsinki

*France
Datapoint S.A., Paris

Greece
Datajust S.A., Athens

*Holland
Datapoint Nederland B.V., Gouda

*Italy
Datapoint Italia S.P.A., Milan

Norway
Scanvest-Ring Data A/S, Sandnes, Oslo

Portugal
Sointel-Datal Informatica, Lisbon

*Spain
Datapoint Iberica S.A., Madrid

*Sweden
Datapoint Svenska AB, Stockholm

*Switzerland
Datapoint (Schweiz) AG, Zurich

*United Kingdom
Datapoint (U.K.) Ltd., London

THE AMERICAS:

*Brazil
Datapoint do Brasil – Informatica e Communicacao Ltda., Rio de Janeiro

*Canada
Datapoint Canada, Inc., Toronto

Chile
Data Systems, Santiago

Ecuador
Servicios Nacionales Cia., Ltd., Guayaquil

Mexico
Kronos Computacion y Teleproceso, S.A., Mexico City

Panama
Jorge I. Tirado y Asociados, Hato Rey; Puerto Rico

Peru
Automatizacion y Control, S.A., Lima

Venezuela
Net Computer C.A., Caracas

AFRICA/MIDDLE EAST:

Egypt
Data Egypt, Cairo

Israel
I.S. Information Systems Ltd., Givatayim

Kuwait
W.J. Towell Computer Services, Safat

Saudi Arabia
Abdulla Fouad and Sons, Dammam

South Africa
PunchLine (Pty) Ltd., Johannesburg
PowerNet Services (Pty) Ltd., Johannesburg

Turkey
Best Ltd., Ankara

United Arab Emirates
Emirates Electronics Est., Dubai

PACIFIC BASIN:

*Australia
Datapoint Corporation Pty. Ltd., Sydney

Hong Kong
Oriental Data Systems Ltd., Hong Kong

Japan
CJK Co. Ltd., Tokyo

Korea
Union Systems Inc., Seoul

Malaysia
Oriental Data Systems (M) Bhd. Kuala Lumpur

*New Zealand
Datapoint Corporation (N.Z.) Ltd., Wellington

Philippines
Datronics Philippines, Inc., Manila

Singapore
Oriental Data Systems (S) Pte. Ltd., Singapore

Taiwan
EDP Taiwan, Inc., Taipei

Thailand
Systomat Co. Ltd., Bangkok

**Datapoint subsidiaries*

SUPPLEMENTAL INFORMATION (UNAUDITED)

SELECTED QUARTERLY FINANCIAL DATA

(In thousands, except per share data)

Summarized operating results of the Company by quarter for fiscal years 1989 and 1988 are presented as follows:

	Q1	Q2	Q3	Q4
		1989 (1)		
Revenue	$73,475	$84,586	$75,524	$78,964
Gross profit	30,587	34,238	22,978	28,196
Operating income (loss)	492	775	(19,318)	(1,958)
Income (loss) before extraordinary item	1,201	(2,123)	(19,566)	(9,093)
Extraordinary item	1,610	252	(1,716)	199
Net income (loss)	2,811	(1,871)	(21,282)	(8,894)
Income (loss) per common share:				
Before extraordinary item	(.12)	(.44)	(2.18)	(1.14)
Extraordinary item	.16	.02	(.17)	.02
Net income (loss)	.04	(.42)	(2.35)	(1.12)
		1988 (2)		
Revenue	$70,150	$84,234	$88,381	$88,062
Gross profit	31,635	36,841	39,100	38,315
Operating income	1,379	3,981	5,058	4,577
Income before extraordinary item	399	672	1,627	1,585
Extraordinary item	487	1,152	1,043	1,032
Net income	886	1,824	2,670	2,617
Income (loss) per common share:				
Before extraordinary item	(.21)	(.18)	(.08)	(.08)
Extraordinary item	.05	.12	.10	.10
Net income (loss)	(.16)	(.06)	.02	.02

(1) The third quarter results include special charges of $11,059 (see note 3). The recognition of tax loss carryforward benefits resulted in extraordinary gains in the first and second quarters of 1989. Due to losses in the third quarter of 1989, these gains were partially reversed.

(2) The recognition of tax loss carryforward benefits resulted in the extraordinary gains in fiscal 1988.

QUARTERLY MARKET SUMMARY

Datapoint Corporation common stock is traded on the New York Stock Exchange (Symbol: DPT). The prices below represent the high and low prices for composite transactions for stock traded during the applicable period. At July 29, 1989, there were 3,855 stockholders of record. The Company has not paid cash dividends to date on its common stock and has no present intention to pay cash dividends on its common stock in the near future.

Fiscal year		High	Low
1989	Q4	5.38	3.50
	Q3	4.50	3.50
	Q2	4.63	3.88
	Q1	5.38	4.38
1988	Q4	5.75	4.50
	Q3	5.50	3.75
	Q2	6.13	4.00
	Q1	9.25	3.38

Report of Ernst and Young Independent Auditors

The Board of Directors
Datapoint Corporation

We have audited the accompanying consolidated balance sheets of Datapoint Corporation and subsidiaries (the "Company") at July 29, 1989 and July 30, 1988, and related consolidated statements of operations and cash flows for each of the three fiscal years in the period ended July 29, 1989. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of the Company at July 29, 1989 and July 30, 1988, and the results of its operations and its cash flows for each of the three fiscal years in the period ended July 29, 1989, in conformity with generally accepted accounting principles.

Ernst + Young

Dallas, Texas
September 15, 1989

In June 1988, an agreement was entered into between the Company and Texcom Management Services, Inc. ("Texcom"), a subsidiary of IT. Under this agreement, all new domestic leases of the Company's product line, at the option of the Company, may be sold to Texcom. During 1989 and 1988, the Company recorded $2,570 and $256, respectively, in sale revenue for leases sold to Texcom under this agreement. The Company handles the administration of these leases and remits to Texcom, on a monthly basis, the gross rentals due on the leases under contract, less an administrative fee. During 1989, the Company paid Texcom $628, net of administrative fees, for leases sold to Texcom.

Canal Capital Corporation, of which Mr. French is Chairman of the Board, a director and President, Mr. Edelman is Vice-Chairman and a director, and Messrs. Mandigo and Sutherland are also directors, had been retained by the Company to provide real estate consulting services for a monthly fee. The consulting arrangement was terminated at the end of February 1987. During 1987, the Company paid Canal Capital Corporation $110 pursuant to this consulting arrangement.

Mr. Kail is also a director of the Company's Japanese distributor, CJK Company, Ltd. During fiscal 1989, CJK paid the Company $2,925 for products purchased from the Company. Mr. Kail has no financial interest in such transactions.

18. *Commitments and Contingencies*

The Company was a defendant in a suit brought by Northern Telecom Inc. claiming infringement of a U.S. patent relating to processor-based data entry devices. The complaint sought preliminary and permanent injunctive relief and unspecified damages; however, the plaintiff's attorneys had asserted that the plaintiff's damages may have exceeded $65,000. On August 31, 1988, the Company obtained a judgment that the patent is invalid and unenforceable, but partially infringed, and the Company is not liable to Northern Telecom Inc. Northern Telecom Inc. has appealed the judgment and the Company is vigorously defending the appeal.

The Company and its directors, among other co-defendants, have been sued in Delaware Chancery Court by a purported holder of the Company's 8⅞% convertible subordinated debentures due 2006 who seeks to represent the class of such debenture holders. The suit alleges that the Company's spin-off to stockholders of IT was in default of the Company's obligations under the indenture entered into with respect to these debentures. The complaint seeks redemption of such debentures pursuant to the terms of the indenture, as well as assumption of debenture obligations by IT, rescission of the spin-off, and other relief. As of July 29, 1989, $78,664 in principal amount of such debentures was outstanding. Based upon the advice of counsel, the Company believes that the action is without merit and will vigorously defend the suit.

The Company is also a defendant in various other lawsuits generally incidental to its business. The amounts sought by the plaintiffs in such cases are substantial and, if all such cases were decided adversely to the Company, the Company's aggregate liability might be material. However, the Company does not expect such an aggregate result.

With respect to each of the foregoing matters, no provision has been made in the accompanying consolidated financial statements for any possible liability.

17. *Certain Relationships and Related Transactions*

Pursuant to an agreement dated February 20, 1986, the Company retained Arbitrage Securities Company ("Arbitrage"), a company controlled by director Asher B. Edelman, to perform investment advisory and financial management services with respect to an initial investment in a portfolio of $20,000 which, in the judgment of the Company's Board, is not currently required for the Company's operations. The net realized profits have been reinvested in the investment portfolio and, at July 29, 1989, the portfolio balance is $44,872. Fees charged by Arbitrage are computed monthly and are equal to 25% of any interest and dividends earned and net realized gains from transactions in securities in the portfolio less interest and short dividend expenses incurred and net unrealized losses in security positions for such calendar month. Realized losses in excess of realized gains in any month are carried over to subsequent months and applied against realized gains for such subsequent month. Brokerage fees incurred as a result of investing activities are borne by the Company. During 1989, 1988 and 1987, Arbitrage earned fees of $95, $2,356 and $2,330, respectively, under this arrangement.

On June 13, 1986, a limited partnership of which a wholly-owned subsidiary of the Company was the sole general partner commenced a cash tender offer for all of the outstanding shares of common stock of Fruehauf Corporation ("Fruehauf"). On August 22, 1986, the partnership entered into a settlement and purchase agreement pursuant to which the tender offer was terminated and the partnership sold the Fruehauf shares for cash. The partnership also received reimbursement for certain expenses. As a result of this transaction, the Company realized a net gain of approximately $6,000 (see note 4). Additionally, during 1987, the Company's subsidiary received a $250 fee for services provided as general partner pursuant to the Agreement of Limited Partnership. The limited partners of this partnersl.ip included directors Edelman, Daniel R. Kail and Clark R. Mandigo and several entities in which members of the Company's Board have an interest. This partnership was dissolved upon termination of the tender offer. The Company's former retirement income plan, of which directors Edelman, Raymond French and, former director Charles P. Stevenson, were the Trustees, purchased 35,000 shares of Fruehauf during the same period that members of the partnership were accumulating such shares. The plan was not a participant in the partnership.

A limited partnership of which a wholly-owned subsidiary of the Company was the sole general partner acquired approximately 94% of the outstanding stock of Ponderosa in January 1987 and the balance in September 1987 (see note 2). Limited partners of the partnership included Mr. Edelman and several entities in which members of the Company's Board had an interest. This partnership was dissolved as of October 9, 1987. During 1988, the Company's subsidiary received a $420 fee for services provided as general partner pursuant to the Agreement of Limited Partnership.

In March 1987, a group comprised of Mr. Edelman and affiliated investors, including the Company, commenced a cash tender offer for all of the outstanding shares of common stock of Burlington Industries. In June 1987, the offer was rejected and effectively terminated. During 1988, the Company liquidated its investment at a gain of approximately $7,500 (see note 4).

In October 1987, a group led by Mr. Edelman and affiliated investors, including the Company and IT, commenced a tender offer for all of the outstanding shares of The Telex Corporation ("Telex"). The offer was made by a general partnership of subsidiaries of the Company and IT. The offer was terminated in December 1987, when Telex was acquired by Memorex International N.V. at a price per share exceeding the group's average basis in its shares of Telex. The Company recorded a net gain on the sale of its shares of approximately $900 (see note 4).

The Company's directors Edelman, Sutherland, Kail and Mandigo are also directors of IT, comprising four of IT's eight-person board of directors. As such, they receive compensation and/or benefits from IT. Also, these four directors may be deemed to beneficially own approximately 12% of IT's common stock. In addition, they and certain officers of the Company have options to purchase shares of IT common stock equal in the aggregate to approximately 3% of the amount presently outstanding.

Since the 1985 spin-off of IT, the Company has engaged in and continues to engage in various transactions with IT. Certain of these transactions result from the spin-off, such as the need to continue to share certain services and the sublease of space which could not otherwise be assigned to IT. All such transactions are billed to IT by the Company at its cost. All other transactions between the Company and IT have been pursuant to a Master Maintenance Agreement entered into at the time of the spin-off and relate to the ordinary business operations of both the Company and IT. For 1989, 1988 and 1987, IT paid the Company approximately $2,223, $3,059 and $8,850, respectively, for equipment and field support spares, royalties and expenses, and the Company paid IT approximately $593, $2,755 and $2,674, respectively, primarily for services and sales.

The Company replaced the defined benefit plan with The Datapoint Corporation Profit Sharing/Employee Savings Plan. This is a qualified salary-deferral plan under Section 401(k) of the Internal Revenue Code in which all employees of the Company are eligible to participate in the plan provided that the employee has been employed for at least 12 months. An employee may elect to have up to five percent of his compensation contributed to the plan up to $7. At the discretion of its Board, the Company may contribute percentage matching amounts to the plan and during 1989 and 1988 contributed matching amounts equal to 25% of the employee contributions. The participant's contributions and earnings may be invested in one or more of the several investment alternatives offered by the Company. The participant's interest in the Company's contributions vests gradually during the first four years of active service and immediately thereafter. The expenses for the Company's 25% match of employee contributions during 1989 and 1988 were $206 and $101, respectively. At the discretion of the Board, the Company may also contribute to the plan an amount that is contingent upon the Company meeting financial goals that are established annually by the Board. During 1988, the Company incurred expense of $600 related to the profit sharing part of the plan.

Non-U.S. Plans

Most of the Company's foreign subsidiaries provide retirement income plans which conform to the practice of the country in which they do business. The types of company sponsored plans in use are defined benefit, defined contribution and termination indemnity.

Defined Benefit Plans

Five of the Company's subsidiaries utilize defined benefit plans with employee benefits being based primarily on years of service and wages near retirement. Obligations under these plans are funded primarily through deposits in pooled investments or insurance policies. Pension cost related to these defined benefit plans for 1989, 1988 and 1987 consisted primarily of service and interest costs, partially offset by returns on plan assets. The net pension cost for 1989, 1988 and 1987 for these plans aggregated $903, $410 and $1,324, respectively. The funded status of these plans at July 29, 1989 and July 30, 1988 follows:

	1989		*1988*	
	Over-funded	*Under-funded*	*Over-funded*	*Under-funded*
Actuarial present value of projected benefit obligation	$(9,508)	$(6,610)	$(8,710)	$(5,980)
Fair market value of plan assets	16,868	2,413	14,552	802
Excess (deficiency) of assets over projected benefit obligation	7,360	(4,197)	5,842	(5,178)
Unrecognized past service cost	851	—	942	—
Unrecognized net loss	(2,728)	(1,964)	(753)	(730)
Unrecognized transition net (gain) loss	(2,587)	854	(3,100)	963
Prepaid (accrued) pension cost as of July 29, 1989 and July 30, 1988	$ 2,896	$(5,307)	$ 2,931	$(4,945)

The aggregate actuarial present value of accumulated benefit obligations as of July 29, 1989 and July 30, 1988 were $9,676 and $5,128, respectively, of which $6,259 and $3,612, respectively, relate to the over-funded plan. Vested benefit obligations for 1989 and 1988 aggregated $8,155 and $4,745, respectively, of which $6,259 and $3,612, respectively, relate to the over-funded plan.

Actuarial assumptions used to determine funded status for 1989 and 1988 varied between subsidiaries. Discount rates used to determine projected benefit obligations ranged from 5% to 10%, compensation rates of increase ranged from 4% to 8% and long-term rates of return on plan investments ranged from 5% to 11%.

Other Plans

The aggregate pension cost for the defined contribution and termination indemnity plans was $275, $298 and $102 in 1989, 1988 and 1987, respectively.

15. Information Relating to Business Segments and International Operations

Business Segment Information

The Company operates in one industry and is an international computer and communications systems marketer, manufacturer and developer. Additionally, the Company provides maintenance services on its products in the United States through Intelogic Trace, Inc. ("IT"), and services its products outside the United States through its international distributors and subsidiaries.

International Operations

The Company conducts the majority of its international marketing and service operations through its subsidiaries and, to a lesser extent, through various distributorship arrangements. The majority of all of the Company's manufacturing is performed domestically, and it is the Company's policy to transfer product between affiliates at prices which reflect market conditions. Financial information on a geographic basis follows:

	1989	1988	1987
Revenue – unaffiliated customers:			
United States – domestic	$ 44,540	$ 51,324	$ 64,880
– export sales	14,420	16,236	18,638
Europe	214,968	218,710	187,577
Other international	38,621	44,557	40,995
Total revenue from unaffiliated customers	312,549	330,827	312,090
Revenue – intercompany:			
United States	54,034	70,694	59,649
Europe	1,198	1,437	1,197
Other international	62	37	44
Eliminations	(55,294)	(72,168)	(60,890)
Total consolidated revenue	$312,549	$330,827	$312,090
Operating income (loss):			
United States	$(17,975)	$(2,248)	$(65,954)
Europe	(2,723)	15,076	6,950
Other international	(5,124)	2,327	388
Eliminations	5,813	(160)	(1,303)
Total operating income (loss)	$(20,009)	$ 14,995	$(59,919)
Identifiable assets:			
United States	$144,859	$176,892	$207,831
Europe	163,995	196,523	179,899
Other international	29,102	35,810	39,730
Eliminations	(7,953)	(21,808)	(22,825)
Total identifiable assets	$330,003	$387,417	$404,635

Included in identifiable assets is the excess of the cost of the foreign investments over the net assets acquired. Accumulated amortization of this excess was $19,730 at July 29, 1989 and $16,990 at July 30, 1988.

As a result of the strengthening of the U.S. dollar during 1989 in relation to the majority of those local currencies in which the Company's subsidiaries operate, a decrease of $8,087 in stockholders' equity was reflected in the foreign currency translation adjustment. During 1988 and 1987 the Company recorded an increase of $3,028 and $12,792, respectively, in stockholders' equity as a result of a weakening U.S. dollar. In the Company's opinion, these results should be viewed primarily as a function of foreign exchange rate fluctuations and not as a change in the net asset value of the Company's foreign operations.

16. Retirement Income Plans

The expenses for the Company's retirement income plans for 1989, 1988 and 1987 were $1,178, $708 and $674, respectively.

U.S. Plan

Effective August 15, 1987, the Company's noncontributory defined benefit pension plan ceased to accumulate benefits and effective January 29, 1988, the plan was dissolved. The plan covered substantially all of the Company's United States employees. As of the date of the plan termination, all active employees became vested regardless of the length of service. In addition, all employees who were involuntarily terminated during 1987 were given vesting privileges. The plan's settlement of accumulated benefit obligations was fulfilled by providing lump sum single payments or by purchasing deferred annuity contracts in the name of the employees. After such distributions, excess plan assets of approximately $6,400 reverted back to the Company. Under the provisions of SFAS No. 88, the Company recognized a gain of $3,166 on the termination of the plan.

During 1987, the Company recorded a net pension credit of $752 and had prepaid pension cost of $2,523. Additionally, the Company recognized a gain in 1987 of $356 due to the settlement and curtailment of pension obligations resulting from work force reductions.

14. STOCK OPTION PLANS, PURCHASE PLAN AND OTHER

At July 29, 1989, an aggregate of 1,955,932 shares were reserved for issuance in connection with the stock option plans discussed below. An additional 4,344,691 shares have been reserved for possible issuance in connection with the convertible debentures.

STOCK OPTION PLANS

Under the Company's employee stock option plans, officers and other key employees may be granted options to purchase common stock and related stock appreciation rights. Under the terms of these plans, options may be granted at no less than 75% of fair market value and expire ten years from the date of grant. The Board of Directors ("Board") may grant options exercisable in full or in installments, and has generally granted options at fair market value exercisable in three or four installments beginning one year from the date of grant. As of July 29, 1989, options for 383,141 shares under all employee plans were exercisable and no stock appreciation rights had been granted. Options outstanding as of that date have an average exercise price of $4.69 and expire during the period May 1992 through April 1999.

	Employee Stock Option Plans		
	Price Ranges of Shares Under Option	*Number of Shares*	
		Under Option	*Available for Option*
Outstanding at July 30, 1988	$2.78 - 8.00	970,747	1,418,424
Shares authorized	–	–	–
Granted	$3.56 - 5.25	250,500	(250,500)
Exercised	$2.78 - 3.81	(45,011)	–
Cancelled	$2.78 - 7.38	(224,812)	224,812
Expired	–	–	(838,228)
Outstanding at July 29, 1989	$2.78 - 8.00	951,424	554,508

During 1987, the Company's stockholders approved the 1985 Director Stock Option Plan. This plan provides for a one-time grant, at fair market value, of a Non-Incentive Stock Option to purchase 25,000 shares to each Director of the Board and an additional 50,000 shares at fair market value for any newly elected Chairman of the Board. The plan includes both employee and nonemployee directors and options expire five years from the date of grant.

	Director Stock Option Plan		
	Price Ranges of Shares Under Option	*Number of Shares*	
		Under Option	*Available for Option*
Outstanding at July 30, 1988	$2.78 - 5.75	175,000	275,000
Shares authorized	–	–	–
Granted	–	–	–
Exercised	–	–	–
Cancelled	–	–	–
Outstanding at July 29, 1989	$2.78 - 5.75	175,000	275,000

Included above are nonemployee director options of 125,000 shares, at an average of $3.27 per share, which were outstanding at July 29, 1989. As of July 29, 1989, all outstanding shares of the director plan, which were under option, were exercisable and had an average exercise price of $3.56.

STOCK PURCHASE PLAN

The Company had a stock purchase plan which granted qualified employees the right to purchase common stock under an employee withholding plan. Rights granted under the plan would expire no later than twenty-seven months after date of grant with the purchase price being the lesser of (a) 85% of the fair market value on the expiration date or (b) 85% of the fair market value on the date the right was granted. All rights expired the first business day of 1989.

	Stock Purchase Plan		
	Price Ranges of Shares Under Participation	*Number of Shares*	
		Under Participation	*Available for Participation*
Outstanding at July 30, 1988	$6.27	5,861	457,922
Granted	–	–	–
Exercised	$6.27	(5,861)	–
Expired	–	–	(457,922)
Outstanding at July 29, 1989	–	–	–

13. CHANGES IN STOCKHOLDERS' EQUITY

	Common Stock		Preferred Stock		Other	Foreign Currency Translation	Retained	Treasury	Total Stockholders'
	Shares	Amount	Shares	Amount	Capital	Adjustment	Earnings	Stock	Equity
Balances at July 26, 1986	17,932,276	$ 5,184	–	$ –	$192,913	$(8,445)	$ 76,562	$(32,949)	$233,265
Net loss	–	–	–	–	–	–	(57,770)	–	(57,770)
Common stock options exercised	198,291	50	–	–	629	–	–	–	679
Foreign currency translation adjustment	–	–	–	–	–	12,792	–	–	12,792
Common stock converted to preferred stock (A)	(8,000,000)	–	2,000,000	2,000	63,711	–	–	(66,000)	(289)
Dividends paid on preferred stock ($2.92 per share)	–	–	–	–	–	–	(5,846)	–	(5,846)
Purchase of treasury stock	(126,200)	–	–	–	–	–	–	(937)	(937)
Balances at August 1, 1987	10,004,367	5,234	2,000,000	2,000	257,253	4,347	12,946	(99,886)	181,894
Net income	–	–	–	–	–	–	7,997	–	7,997
Common stock options exercised	119,328	29	–	–	433	–	–	–	462
Foreign currency translation adjustment	–	–	–	–	–	3,028	–	–	3,028
Dividends paid on preferred stock ($4.94 per share)	–	–	–	–	–	–	(9,800)	–	(9,800)
Treasury stock:									
Common purchased	(71,469)	–	–	–	–	–	–	(328)	(328)
Preferred purchased	–	–	(52,882)	–	–	–	–	(1,096)	(1,096)
Common issued	5,691	–	–	–	–	–	–	27	27
Balances at July 30, 1988	10,057,917	5,263	1,947,118	2,000	257,686	7,375	11,143	(101,283)	182,184
Net loss	–	–	–	–	–	–	(29,236)	–	(29,236)
Common stock options exercised	50,872	12	–	–	112	–	–	–	124
Foreign currency translation adjustment	–	–	–	–	–	(8,087)	–	–	(8,087)
Dividends paid on preferred stock ($4.94 per share)	–	–	–	–	–	–	(9,579)	–	(9,579)
Treasury stock:									
Preferred purchased	–	–	(15,900)	–	–	–	–	(359)	(359)
Common issued	6,970	–	–	–	–	–	(5)	37	32
Balances at July 29, 1989	10,115,759	$ 5,275	1,931,218	$ 2,000	$257,798	$(712)	$(27,677)	$(101,605)	$135,079

(A) Effective December 12, 1986, the Company exchanged for 8,000,000 shares of its common stock an aggregate of 2,000,000 shares of exchangeable preferred stock, with a liquidation preference of $38 per share, pursuant to an exchange offer. The preferred stock accumulates dividends annually at a rate of $4.94 per share and is exchangeable into 13% subordinated notes, at a rate of $38 principal amount of such notes per share of preferred stock, at the option of the Company at specified dates on or after January 15, 1989. As of the end of 1989, there were no dividends in arrears.

11. ACCRUED EXPENSES

Accrued expenses consist of:

	1989	1988
Salaries, commissions, bonuses and other benefits	$ 21,703	$ 23,578
Taxes other than income taxes	7,180	9,963
Facilities reorganization	2,716	1,096
Product performance	1,639	2,166
Interest	1,234	1,246
Other	7,221	10,680
	$ 41,693	$ 48,729

12. LONG-TERM DEBT

Long-term debt consists of:

	1989	1988
8¾% convertible subordinated debentures	$ 78,664	$ 78,664
Domestic term loan at various rates	21,000	–
Noninterest-bearing debentures	–	19,967
8¾% to 11% real estate notes	2,438	2,794
Other obligations	432	670
	102,534	102,095
Less current maturities	21,321	20,330
Total long-term portion	$ 81,213	$ 81,765

8¾% CONVERTIBLE SUBORDINATED DEBENTURES DUE 2006

The 8¾% convertible subordinated debentures are due June 1, 2006. Interest is payable semiannually on June 1 and December 1 of each year. The debentures are subordinated in right of payments to all senior indebtedness, as defined, and are convertible into common stock of the Company at any time prior to the close of business on June 1, 2006, unless previously redeemed. Each one thousand dollar principal amount debenture is convertible into 55.231 shares of common stock. The debentures will be entitled to a mandatory sinking fund commencing June 1, 1991 of $5,000 annually. The Company, at its option, may increase the sinking fund payment to $10,000. The Company, at its option, may receive credit against mandatory sinking fund payments for debentures acquired through means other than the sinking fund. The Company intends to apply previous debenture retirements of $21,336 through July 29, 1989, against the sinking fund requirements for 1991 through 1995. The debentures are also redeemable at the option of the Company in whole or in part at any time at 101.775% of the principal amount of the debentures during the year beginning June 1, 1989 and declining percentages thereafter to June 1, 1991 and thereafter at 100% of the principal amount together with accrued interest to the date of redemption.

DOMESTIC TERM LOAN

In March 1989, the Company entered into an agreement, which was later amended, with First City National Bank of Houston (the "Bank") for a $21,000 term loan due November 1, 1990. Interest charged under the loan agreement varies based upon the Company's selection among rates based upon the London Interbank Borrowing Rate, First City C.D. rates or U.S. prime.

The borrowings are collateralized by certain marketable securities, inventories, accounts receivable and property of the Company. The restricted marketable securities are held by the Bank. The agreement requires that the Company satisfy a number of covenants on an ongoing basis. An uncured default of the Company under one or more of these covenants causes the loan to become callable at the discretion of the Bank. As of July 29, 1989, the Company was in default on two of the covenants and therefore the principal amount of the loan was classified as a current liability. Subsequent to year-end, the Bank and the Company agreed to terminate the loan on or before December 1, 1989. The Company intends to refinance this obligation from other sources.

MATURITIES

Annual scheduled maturities of long-term debt for the next five years are as follows:

1990	$21,321
1991	326
1992	339
1993	357
1994	376

8. FIXED ASSETS

The Company's fixed assets consist of:

	Cost	Accumulated Depreciation	Net
July 29, 1989			
Property, plant and equipment:			
Buildings and land improvements	$ 28,604	$ 14,084	$ 14,520
Machinery, equipment, furniture and fixtures	97,478	80,997	16,481
Land	6,897	–	6,897
	132,979	95,081	37,898
Field support spares	26,121	19,329	6,792
Equipment leased to customers	20,103	16,974	3,129
	$179,203	$131,384	$ 47,819
July 30, 1988			
Property, plant and equipment:			
Buildings and land improvements	$ 28,230	$ 12,422	$ 15,808
Machinery, equipment, furniture and fixtures	109,427	87,701	21,726
Land	6,976	–	6,976
	144,633	100,123	44,510
Field support spares	33,889	24,347	9,542
Equipment leased to customers	25,010	21,442	3,568
	$203,532	$145,912	$ 57,620

9. LEASES

AS LESSOR

The Company leases computer products to customers for various lease terms. Substantially all of the leases are classified as operating leases. The following schedule sets forth the minimum future rentals on noncancellable operating leases as of July 29, 1989:

1990	$3,186
1991	1,167
1992	556
1993	220
1994 and thereafter	10

AS LESSEE

The Company leases certain facilities and equipment under various operating leases. Rental expense under these leases for 1989, 1988 and 1987 was $14,831, $14,285 and $21,379, respectively. Most of the leases contain renewal options for varying periods and require the Company to maintain the property. Certain leases contain provisions for periodic rate adjustments to reflect Consumer Price Index changes.

The future minimum rental commitments, sublease rentals from others and net rental commitments as of July 29, 1989 for all noncancellable leases are:

	Future Minimum Rental Commitments	Sublease Rentals	Net Rental Commitments
1990	$12,894	$ 2,098	$10,796
1991	11,149	1,943	9,206
1992	8,496	1,748	6,748
1993	5,112	1,506	3,606
1994	4,213	1,370	2,843
1995 and thereafter	23,958	12,686	11,272

10. CAPITALIZED SOFTWARE FOR RESALE

The Company has capitalized certain internal engineering and development costs relating to software development and the cost of software purchased from third parties. A summary of the activity for 1987, 1988 and 1989 follows:

	Internally Developed	Purchased	Total
Balance at July 26, 1986	$ 7,418	$ 1,774	$ 9,192
Additions	7,627	1,573	9,200
Amortization	(811)	(852)	(1,663)
Write-offs	(833)	(1,645)	(2,478)
Balance at August 1, 1987	13,401	850	14,251
Additions	8,090	2,741	10,831
Amortization	(3,044)	(638)	(3,682)
Write-offs	(155)	(47)	(202)
Balance at July 30, 1988	18,292	2,906	21,198
Additions	4,442	3,159	7,601
Amortization	(4,949)	(2,486)	(7,435)
Write-offs	(2,369)	(790)	(3,159)
Balance at July 29, 1989	$15,416	$ 2,789	$18,205

5. *Income Taxes*

The provision for income taxes before extraordinary credit consists of:

	1989	1988	1987
Current			
Federal	$ 268	$ 691	$ 349
Foreign	(126)	3,458	2,927
Deferred	468	504	211
Charge in lieu of income taxes	345	3,714	716
Provision for income taxes	$ 955	$8,367	$ 4,203

Deferred taxes are provided for all material timing differences between financial and tax earnings. The tax effects of the major timing differences are:

	1989	1988	1987
Differing methods of depreciation and amortization	$(1,356)	$ (114)	$ (62)
Other, net	1,824	618	273
Total timing differences	$ 468	$ 504	$ 211

The differences between the tax provision in the financial statements and the tax expense computed at the U.S. federal statutory rate are:

	1989	1988	1987
Tax expense (benefit) at statutory rate	$(9,733)	$4,418	$(24,428)
Increase (decrease) in taxes resulting from:			
Benefit of U.S. tax loss not recognized	6,707	–	23,631
Foreign losses and other transactions on which a tax benefit could not be recognized	2,439	456	3,631
Adjustment of prior year taxes	923	–	–
Nondeductible amortization of intangible assets	862	1,547	1,996
Effect of foreign tax refunds and U.S. tax associated with dividends paid	268	688	(252)
Effect of federal rate less than (greater than) foreign tax rates	(766)	951	(648)
Other, net	255	307	273
Provision for income taxes	$ 955	$8,367	$ 4,203

The undistributed earnings, indefinitely reinvested in international business, of the Company's foreign subsidiaries aggregated approximately $6,800 at July 29, 1989.

At July 29, 1989, the Company has tax operating loss carryforwards approximating $72,000 and $18,500 for federal and foreign tax purposes, respectively, expiring in various amounts beginning in 1994 and 1990, respectively. For financial reporting purposes at July 29, 1989, the Company has federal and foreign operating loss carryforwards of approximately $79,000 and $30,000, respectively. Utilization of foreign net operating loss carryforwards in 1989, 1988 and 1987 resulted in extraordinary gains of $345, $3,714 and $716, respectively.

Utilization of the tax loss carryforward is subject to limitation in the event of a more than 50% change in ownership in the Company.

The Company has unused investment, research, alternative minimum tax and foreign tax credits for income tax and financial reporting purposes at July 29, 1989, of approximately $15,000 expiring at various dates through 2001, which may be used to offset future tax liabilities of the Company.

In December 1987, the Financial Accounting Standards Board issued SFAS No. 96, "Accounting for Income Taxes." Application of the standard, which will be required for the Company's fiscal year ending in 1991, but could have been adopted earlier, would require a change from the deferred method to the liability method of accounting for income taxes. The Company has not adopted this standard nor has the financial statement impact, if any, been determined for 1989.

6. *Cash and Short-Term Investments*

Marketable securities and restricted marketable securities are stated at market value for 1989 and 1988. Cost for marketable securites was $18,915 and $27,004 for 1989 and 1988, respectively. Cost for restricted marketable securities was $29,250 for 1989. At July 29, 1989, unrealized gains totalled $1,331 and unrealized losses totalled $9,178.

7. *Inventories*

Inventories consist of:

	1989	1988
Finished products	$19,847	$26,759
Work in process	2,540	4,901
Raw materials	6,600	13,963
Total inventories	$28,987	$45,623

Excess of Cost of Investment over Net Assets Acquired

The excess of cost of investment over net assets acquired is amortized on a straight-line basis, over forty years, following the date of purchase.

Income Taxes

Deferred income taxes are provided for timing differences between financial reporting and taxable income. The Company chose not to elect early adoption of Statement of Financial Accounting Standards No. 96, "Accounting for Income Taxes," (see note 5).

The provision for income taxes is reduced by investment tax credits which are recognized in the year the assets which give rise to the credits are placed in service (flow-through method) or when realized for income tax purposes, if later.

No tax provision has been made for the undistributed earnings of foreign subsidiaries as management expects these earnings to be reinvested indefinitely or received substantially free of additional tax.

Loss per Common Share

Loss per common share is based on the weighted average number of common shares outstanding during each year presented. The Company's common stock equivalents, which include stock options and convertible debt, were antidilutive for the years presented and, therefore, excluded from the computation. The 1989, 1988 and 1987 computations include the effect of dividends on preferred stock of $9,579, $9,800 and $5,846, respectively.

2. *Acquisitions and Divestitures*

Ponderosa, Inc. – In connection with a 21% ownership interest, in a partnership accounted for by the equity method, the Company recorded non-operating charges related to its share of the net losses of $1,589 and $604 for 1988 and 1987, respectively. During 1988, the Company sold its 21% interest and recorded a gain of $1,834.

3. *Charges and Credits Affecting Loss Before Income Taxes*

The 1989 results include special charges of $11,059 relating to employee severance accruals of $6,812, office closing accruals of $3,226 and other charges of $1,021. The 1987 results include special charges of $56,826 relating to fixed asset write-downs of $19,196, employee severance accruals of $12,742, inventory provisions of $11,796, office closing accruals of $6,440 and other charges of $6,652.

4. *Non-Operating Income (Expense)*

Investment income consists of the following:

	1989	1988	1987
Net realized gains on marketable securities	$7,850	$3,657	$13,195
Dividends	1,563	855	850
Interest earned	1,281	731	121
Net unrealized losses on marketable securities	(7,614)	(233)	–
Margin expense	(24)	(221)	(767)
Other	283	5	28
	$3,339	$4,794	$13,427

Other, net consists of the following:

	1989	1988	1987
Interest earned on temporary investments	$1,917	$2,170	$ 2,919
Write-down of investment in partially-owned company	(1,000)	(340)	–
Pension settlement and curtailment gains	–	3,166	356
Gain on disposition of partnership	–	1,834	–
Equity in losses of partnership	–	(1,589)	(604)
Settlement of litigation	–	(1,000)	–
Other	(782)	(535)	38
	$ 135	$3,706	$ 2,709

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

FISCAL YEAR

The Company utilizes a 52-53 week fiscal year. References to 1989, 1988 and 1987 are for the 52-week periods ended July 29, 1989, July 30, 1988 and the 53-week period ended August 1, 1987, respectively.

PRINCIPLES OF CONSOLIDATION

The consolidated financial statements include the accounts of the Company and its majority-owned subsidiaries. All consolidated foreign subsidiaries are included on the basis of fiscal years ending within 35 days prior to the Company's fiscal year-end to facilitate timely reporting. Intercompany accounts and transactions have been eliminated upon consolidation.

CASH AND CASH EQUIVALENTS

Temporary investments consisting of time deposits are considered cash equivalents for purposes of the accompanying consolidated financial statements.

MARKETABLE SECURITIES

Marketable securities are stated at the lower of cost, determined on a first-in, first-out basis, or market at the balance sheet date and consist primarily of equity securities.

INVENTORIES

Inventories are stated at the lower of standard cost (approximates first-in, first-out) or market (replacement cost as to raw materials and net realizable value as to work in process and finished products).

FIXED ASSETS

Fixed assets are carried at cost and depreciated for financial purposes using straight-line and accelerated methods at rates based on the economic lives of the assets, which are generally as follows:

Buildings and land improvements	5-30 years
Machinery, equipment, furniture and fixtures	3-10 years
Equipment leased to customers	4 years
Field support spares	3 years

Repairs and maintenance are generally expensed as incurred while significant improvements and renewals are capitalized.

CAPITALIZED SOFTWARE FOR RESALE

The Company capitalizes certain engineering and product development costs relating to software development in accordance with SFAS No. 86. Capitalized software costs are amortized using a straight-line method at rates based on the lesser of the expected life of the product, the term of any licensing arrangement or at lives ranging from three to five years depending on the type of software.

TRANSLATION OF FOREIGN CURRENCIES

All assets and liabilities of those foreign subsidiaries which operate primarily in a local currency environment are translated into U.S. dollars using the exchange rate prevailing at the balance sheet date, while income and expense accounts are translated at average exchange rates during the year. Management has determined that all of the Company's foreign subsidiaries operate primarily in local currencies.

RECLASSIFICATIONS

Certain reclassifications to the financial statements for prior years have been made to conform to the 1989 presentation.

REVENUE RECOGNITION

Revenue is recognized in accordance with the following methods:

(a) Sales revenue is generally recognized at the time of shipment.

(b) Service revenue is recognized ratably over a contractual period or as services are provided.

(c) Lease revenue is recognized on the operating method ratably over the term of the lease.

CONSOLIDATED STATEMENTS OF CASH FLOW

DATAPOINT CORPORATION AND SUBSIDIARIES FISCAL YEARS 1989, 1988 AND 1987

(In thousands)

	1989	1988	1987
Cash flow provided from (used in) operating activities:			
Net income (loss)	$(29,236)	$ 7,997	$(57,770)
Adjustments to reconcile net income (loss) to net cash provided from operating activities:			
Depreciation and amortization	28,932	25,696	30,334
Net realized gains on marketable securities	(7,850)	(3,657)	(13,195)
Provision for unrealized losses	7,614	233	–
Pension settlement and curtailment gains	–	(3,166)	(356)
Provision for losses on accounts receivable	1,935	524	1,414
Capitalized software write-off	3,159	202	2,478
Fixed asset write-downs	680	–	19,196
Changes in assets and liabilities:			
Decrease in receivables	6,711	1,970	8,257
(Increase) decrease in inventory	15,761	(1,226)	18,440
Increase (decrease) in accounts payable and accrued expenses	1,461	(1,602)	4,913
Increase (decrease) in other liabilities and deferred credits	(3,511)	2,163	808
Other, net	(1,447)	(2,931)	(659)
Net cash provided from operating activities	24,209	26,203	13,860
Cash flow provided from (used in) investing activities:			
Sales (purchases) of marketable securities, net	(10,207)	13,198	–
Fixed asset additions	(15,752)	(19,635)	(28,9[illegible]
Fixed asset sales, retirements and other, net	6,307	4,338	9,38[illegible]
Capitalized software development costs	(7,907)	(10,904)	(9,137)
Proceeds from pension settlement	–	2,214	–
Investment in subsidiary	–	1,564	(1,874)
Other, net	(228)	(1,347)	1,501
Net cash (used in) investing activities	(27,787)	(10,572)	(29,045)
Cash flow provided from (used in) financing activities:			
Proceeds and payments on debt, net	(2,576)	2,607	922
Payments of dividends on preferred stock	(9,579)	(9,800)	(5,846)
Treasury stock sales (purchases), net	(327)	(78)	(937)
Other, net	124	462	390
Net cash provided from (used in) financing activities	(12,358)	(6,809)	(5,471)
Effect of foreign currency translation on cash	(1,135)	854	2,494
Net increase (decrease) in cash and cash equivalents	(17,071)	9,676	(18,162)
Cash and cash equivalents at beginning of year	39,237	29,561	47,723
Cash and cash equivalents at end of year	$ 22,166	$39,237	$ 29,561
Cash payments (refunds) for:			
Interest, net of amounts capitalized	$ 10,623	$ 8,896	$ 9,348
Income taxes, net	1,330	1,171	2,541
Financing and investing activities not affecting cash:			
Issuance of preferred stock upon conversion of common stock	–	–	65,70[illegible]

See accompanying Notes to Consolidated Financial Statements.

CONSOLIDATED BALANCE SHEETS

DATAPOINT CORPORATION AND SUBSIDIARIES JULY 29, 1989 AND JULY 30, 1988

(In thousands, except share data)

	1989	1988
ASSETS		
Current assets:		
Cash and cash equivalents	$ 22,166	$ 39,237
Marketable securities	16,875	26,771
Restricted marketable securities	23,443	–
Accounts receivable, net of allowance for doubtful accounts of $4,821 and $4,103, respectively	67,765	80,452
Inventories	26,987	45,623
Prepaid expenses and other current assets	4,250	5,362
Total current assets	163,486	197,445
Fixed assets, net	47,819	57,620
Excess of cost of investment over net assets acquired, net	85,010	92,933
Capitalized software for resale, net	18,205	21,198
Other assets, net	15,483	18,221
	$330,003	$387,417
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Payables to banks	$ 9,481	$ 11,404
Current maturities of long-term debt	21,321	20,330
Accounts payable	19,153	19,804
Accrued expenses	41,693	48,729
Deferred revenue	9,389	12,397
Income taxes payable	5,279	7,251
Total current liabilities	106,316	119,915
Long-term debt, exclusive of current maturities	81,213	81,765
Other liabilities	7,395	3,553
Commitments and contingencies	–	–
Stockholders' equity:		
Preferred stock of $1.00 par value. Shares authorized 10,000,000; shares issued and outstanding 1,931,218 in 1989 and 1,947,118 in 1988	2,000	2,000
Common stock of $.25 par value. Shares authorized 40,000,000; shares issued and outstanding 10,115,759 in 1989 and 10,057,917 in 1988	5,275	5,263
Other capital	257,798	257,686
Foreign currency translation adjustment	(712)	7,375
Retained earnings (deficit)	(27,677)	11,143
Treasury stock, at cost	(101,605)	(101,283)
Total stockholders' equity	135,079	182,184
	$330,003	$387,417

See accompanying Notes to Consolidated Financial Statements.

CONSOLIDATED STATEMENTS OF OPERATIONS

DATAPOINT CORPORATION AND SUBSIDIARIES FISCAL YEARS 1989, 1988 and 1987

(In thousands, except per share data)

	1989	1988	1987
Revenue:			
Sales	$198,204	$206,775	$191,982
Service and lease	114,345	124,052	120,108
Total revenue	312,549	330,827	312,090
Cost of revenue:			
Sales	118,186	105,192	127,793
Service and lease	78,364	79,744	82,456
Total cost of revenue	196,550	184,936	210,249
Gross profit	115,999	145,891	101,841
Operating expenses:			
Research, development and engineering	11,205	11,633	19,369
Marketing and selling	109,989	102,717	117,937
General and administrative	14,814	16,546	24,454
Total operating expenses	136,008	130,896	161,760
Operating income (loss)	(20,009)	14,995	(59,919)
Non-operating income (expense):			
Investment income	3,339	4,794	13,427
Interest expense	(12,091)	(10,845)	(10,500)
Other, net	135	3,706	2,709
Income (loss) before income taxes and extraordinary credit	(28,626)	12,650	(54,283)
Income taxes	955	8,367	4,203
Income (loss) before extraordinary credit	(29,581)	4,283	(58,486)
Extraordinary credit:			
Utilization of tax loss carryforward	345	3,714	716
Net income (loss)	$(29,236)	$ 7,997	$(57,770)
Net income (loss), less preferred stock dividends	$(38,815)	$(1,803)	$(64,028)
Loss per common share:			
Before extraordinary credit	$(3.88)	$(.55)	$(5.03)
Utilization of tax loss carryforward	.03	.37	.05
Net loss	$(3.85)	$(.18)	$(4.98)
Average common shares	10,080,612	10,048,519	12,863,549

See accompanying Notes to Consolidated Financial Statements.

The increase in revenue in 1988 compared with 1987 was due to increased international volumes and the favorable impact during 1988 of higher foreign currency translation rates resulting from the weakening of the U.S. dollar from 1987. Domestic revenues in 1988 declined from 1987 due primarily to a soft U.S. computer market.

Gross profit margin for 1989 was 38.3% compared with 44.1% for 1988, excluding the effect on 1989 gross profit margin of $3.6 million in special charges (see note 3 to Consolidated Financial Statements). The decline is due primarily to a lower margin product mix, competitive price pressures, and a decline in high margin lease revenue.

Gross profit margin for 1988 was 44.1% compared with 43.2% for 1987, excluding the effect on 1987 gross profit margin of $32.9 million in special charges (see note 3 to Consolidated Financial Statements). The improvement was due primarily to a higher mix of sale revenue, which is a relatively higher margin source of revenue, and reduced manufacturing costs.

Operating expenses for 1989 increased $5.1 million from 1988 due primarily to $7.5 million in special charges incurred in 1989 as described above. Excluding the special charges, the expense decline in 1989 as compared to 1988 was due primarily to staffing reductions and other cost reduction programs. Operating expenses in 1989 were also favorably impacted by lower foreign currency translation rates resulting from the strengthening of the U.S. dollar from 1988.

Operating expenses for 1988 were $130.9 million compared with $137.9 million for 1987, excluding $23.9 million of the 1987 special charges. The decline was due primarily to reductions, facilitated by the 1987 Company restructuring, in salary and depreciation expenses. Additionally, operating expenses in 1988 were unfavorably affected by the impact of higher foreign currency translation rates resulting from the weakening of the U.S. dollar from 1987.

Non-operating results for 1989 declined $6.3 million from 1988 due partially to a $7.4 million increase in net unrealized losses on marketable securities, offset by an increase of $4.2 million in net realized gains on sale of marketable securities. Additionally, non-operating results for 1988 were impacted by a gain of $3.2 million resulting from the termination of the Company's U.S. pension plan.

Non-operating results for 1988 declined $8.0 million from 1987 due primarily to a $9.5 million decline in net realized gains on marketable security transactions from $13.2 million in 1987 to $3.7 million in 1988, partially offset by the gain resulting from the termination of the Company's U.S. pension plan as described above. Additionally, non-operating results for 1988 included a $1.6 million charge for the Company's equity in the loss of a subsidiary, and a gain of $1.8 million on the subsequent sale of this subsidiary (see note 2 to Consolidated Financial Statements). Other financing charges on the Company's debt during 1988 more than offset these gains.

For a discussion of income tax expense for 1989, 1988 and 1987, see note 5 to Consolidated Financial Statements.

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Sterling -

$10-15k

1-3 wks

90, 89, 88
87, 86

10K, Ann Rpts

Literature
First Boston

Datapoint
- SW
-

$282 rev
mkt cap
33 mkt debt

① Intelogic Trace

Value of Components

- Installed base
- Arcnet

SW ??

Ann rpt 10ks
Brokers rpts

Mfg facilities

② Mult. steps ?

Property

③ Review/mtgs

During 1989, the Company consolidated and streamlined its domestic and international operations, which resulted in third quarter special charges of $11.1 million. These charges include employee severance accruals of $6.8 million, office closing accruals of $3.2 million and other charges of $1.1 million.

Also, during the third quarter of 1989, additional costs and expenses totaling $5.5 million were incurred, which were primarily attributable to write-downs of inventory, software and fixed assets to refocus the product direction and marketing efforts of the Company.

FINANCIAL CONDITION AND LIQUIDITY

In 1989, the Company's cash flow was a negative $17.1 million compared with a positive cash flow of $9.7 million in 1988 and a negative cash flow in 1987 of $18.2 million. The negative cash flow in 1989 resulted primarily from the payment of preferred dividends and the use of cash for purchases of marketable securities. Operating activities were the primary sources of cash in each of the three years, although 1989 cash flow from operations declined slightly from 1988 due to the loss incurred. Capital expenditures in 1989 declined compared with 1988 as management controlled these expenditures. During 1989, 1988 and 1987, the Company paid dividends to holders of its preferred stock amounting to $9.6 million, $9.8 million and $5.8 million, respectively.

The Company has available lines of credit from foreign banks to its foreign subsidiaries. The unused lines of credit at July 29, 1989 totaled $15.3 million after borrowings of $12.8 million.

During 1989, the Company retired debentures in the amount of $21.5 million and refinanced this debt through a loan agreement with First City National Bank of Houston (the "Bank") (see note 12 to Consolidated Financial Statements). The borrowings are collateralized by certain marketable securities, inventories, accounts receivable and property of the Company. In addition, the agreement requires that the Company satisfy a number of covenants on an ongoing basis. An uncured default of the Company under one or more of these covenants causes the loan to become callable at the discretion of the Bank. As of July 29, 1989, the Company was in default on two of the covenants contained in the agreement. Subsequent to year-end, the Bank and the Company agreed to terminate the loan on or before December 1, 1989. The Company intends to refinance this obligation from other sources.

The Company has an internal source of liquidity in an investment portfolio with a market value of $44.9 million (see note 17 to Consolidated Financial Statements). At the end of 1989, the portfolio consisted of $4.6 million of cash and $40.3 million of marketable securities, of which $23.4 million was restricted to collateralize the above borrowing.

The Company has no other significant purchase commitments outstanding as of the end of 1989.

RESULTS OF OPERATIONS

The Company incurred a net loss of $29.2 million in 1989 compared with net income of $8.0 million in 1988 and a net loss of $57.8 million in 1987. The Company incurred losses per common share of $3.85, $0.18 and $4.98 for 1989, 1988 and 1987, respectively. The per share calculations were based on average common shares outstanding of 10.1 million, 10.0 million and 12.9 million for 1989, 1988 and 1987, respectively, and for these years includes the effect of the dividends paid on the Company's preferred stock.

The following is a summary of the Company's sources of revenue:

REVENUE SUMMARY
(In thousands)

	1989	1988	1987
Sales:			
U.S.	$ 39,207	$ 42,033	$ 51,335
Foreign	158,997	164,742	140,647
	198,204	206,775	191,982
Service and lease:			
U.S.	5,333	9,291	13,545
Foreign	109,012	114,761	106,563
	114,345	124,052	120,108
Total revenue	$312,549	$330,827	$312,090

Worldwide revenues declined during 1989 when compared with 1988 due primarily to the impact of a stronger U.S. dollar in 1989, a continued decline in the U.S. lease base and the completion of a significant contract early in 1989. Although foreign revenues declined $11.5 million, on a local currency basis, foreign subsidiary revenues were flat. U.S. sales revenue declined in 1989 due primarily to the completion of a significant contract with the federal government, that generated $4.7 million and $8.1 million in sales revenue in 1989 and 1988, respectively. Excluding this contract, U.S. sales revenue increased slightly. The worldwide product mix changed significantly in 1989 as compared with 1988 as Company shipments of 80386-based processors, the 7950, 7800 and 7700, increased significantly, whereas shipments of the Company's proprietary processors, the 8600 and 8850, which are based on older technology, declined significantly. Revenue during 1989 was also adversely impacted by competitive price pressures.

Selected Financial Data
Five-Year Comparison

(Dollars in thousands, except per share data)

	1989	1988	1987	1986	1985[A]
Operating Results for the Fiscal Year					
Total revenue	$ 312,549	$330,827	$312,090	$325,227	$520,168
Operating income (loss)	(20,009)	14,995	(59,919)	(1,876)	(59,650)
Income (loss) before extraordinary credits	(29,581)	4,283	(58,486)	(15,405)	(51,158)
Net income (loss)	(29,236)	7,997	(57,770)	(8,558)	(48,264)
Loss per common share before extraordinary credits	(3.88)	(.55)	(5.03)	(.86)	(2.61)
Net loss per common share	(3.85)	(.18)	(4.98)	(.48)	(2.46)
Financial Position at End of Fiscal Year					
Current assets	$ 163,486	$197,445	$217,728	$223,091	$265,956
Fixed assets, net	47,819	57,620	58,340	78,063	120,945
Total assets	330,003	387,417	404,635	419,221	502,452
Current liabilities	106,316	119,915	121,489	86,305	117,070
Long-term debt	81,213	81,765	100,107	98,186	105,174
Stockholders' equity	135,079	182,184	181,894	233,265	276,225
Financial Condition					
Working capital	$ 57,170	$ 77,530	$ 96,239	$136,786	$148,886
Current ratio	1.5 to 1	1.6 to 1	1.8 to 1	2.6 to 1	2.3 to 1
Long-term debt-to-equity ratio	.60 to 1	.45 to 1	.55 to 1	.42 to 1	.38 to 1
Long-term debt as % of total invested capital	38%	31%	36%	30%	28%
Net income (loss) to average invested capital	(11.8%)	3.0%	(19.5%)	(2.6%)	(11.3%)
Other Information					
Average common shares outstanding	10,080,612	10,048,519	12,863,549	17,977,621	19,582,794
Number of common stockholders	3,855	3,975	4,116	4,822	5,532
Preferred shares outstanding	1,931,218	1,947,118	2,000,000	—	—
Dividends paid on preferred stock	$ 9,579	$ 9,800	$ 5,846	—	—
Number of employees	2,451	2,693	2,749	3,621	5,993

No cash dividends on common stock have been declared during the five-year period.

(A) Data includes former Customer Service division which was spun-off as a separate company (Intelogic Trace Inc.), the first business day of 1986. For additional information see the Company's 1988 Form 10-K.

ACKNOWLEDGMENTS

Each of these Datapoint customers has a unique set of requirements and a unique set of solutions to their business challenges. Their stories illustrate the power, reliability, versatility, effectiveness, and flexibility our customers depend on from their Datapoint systems.

More important, however, is the fact that these customers' Datapoint systems help them create environments where their employees can work effectively and take pride in having excellent tools to help them with their jobs. As a result, they can respond to the needs of their own customers and clients more effectively because of their use of Datapoint hardware and software. Best of all, they can provide the special personal attention that comes from having people do the things they do best, because they have Datapoint systems they can depend on to do the rest.

The board of directors, officers, and employees of Datapoint Corporation are sincerely grateful to the customers of Datapoint. The enthusiasm, intelligence, dedication, and innovation shown by so many of our customers continually help to make Datapoint and the products it offers responsive to the market and at the leading edge of applied technology. Our special thanks to the customers whom you met in the preceding pages and their colleagues and staffs:

Roland Buffart, Director of the Department of Organization and Data Processing, Banque Bruxelles Lambert, and the BBL staff who guided us through their extensive headquarters facilities in Brussels, Belgium.

Leland Chvatal, Manager of Distributed Systems, and Joseph Glasner, Manager, Datapoint Support, Texaco Inc. Information Technology Department, Houston, Texas.

Sue Farni, Municipal Information Systems Director for the City of Mobile, Alabama, and the city employees who graciously demonstrated their applications to us.

Roger Moslard, Managing Director of SICM; Jean Sicard, Marketing Communications Director for MATIF; and the employees of SICM, Paris, France.

Björn Nilsson, Vice President of Software Development for Kommundata; Jan-Åke Bergdahl, Director of Information; and the Kommundata hot-line consultants in Stockholm, Sweden.

Manfred Reddig, Managing Director of MOHAG, headquartered in Recklinghausen, Federal Republic of Germany; Peter Ewald, Manager of MOHAG's Gelsenkirchen showroom; and the entire staff of the Gelsenkirchen facility.

Torben Svane, MIS Director for Varbergs kommun, Sweden; Sven-Ivar Jägård, Financial Director; and the kommun staff who welcomed us to their areas.

"Mobile selected Datapoint in 1977 to save money. Our original investment paid for itself in two or three months. As a city government responsible to our citizens, sound fiscal management is always a high priority. Not only has Datapoint offered Mobile very competitive computing value for its MIS dollars, but our investments in Datapoint systems have helped the city improve productivity and increase business revenues.

"In recent years, dollars have continued to become more limited, although the demands for information have grown greater. The decision we faced was whether to increase personnel or add productivity tools. When Datapoint introduced the ORACLE relational database management system, that decision became easy. Today, we are in production use of ORACLE in half a dozen city departments, including planning, which is writing all its own ORACLE programs and creating its database 'from scratch.' It's approachable, flexible, and responsive. With ORACLE we can trade in thousands of programs for just one, and help the ultimate users do things they've never been able to do before.

"The key to our MIS success, however, continues to be the network. Without that we could not have extended our central resources to provide customized solutions to such a diversity of city functions. It's our backbone. No . . . our central nervous system."

Sue Farni

The City of Mobile, Alabama is home to a quarter of a million people. Responding to the ever-changing information needs of these people is the challenge facing Sue Farni.

The Mobile MIS Department manages a city-wide network driven by two Datapoint 7950 symmetric multi-processor systems that support more than two gigabytes of online data. This network serves the planning, financial, and accounting functions of the city, as well as the fire department, animal shelter, public safety department, motor pool, municipal garage, parks department, tree commission, and many more. Two especially innovative systems have been proposed: a "one-stop" business permit/license/inspection center and an "Action Center" that would provide a central message system for citizen calls. The Datapoint network is also fully interconnected with the city's AT&T System 85 telephone system.

For this dynamic city in the South, the Datapoint solution has proven its worth — keeping city costs low, while supporting a high level of city services.

Sue Farni

Municipal Information Systems Director
The City of Mobile, Alabama
1989 President, U.S. National Datapoint User's Group

The Banque Bruxelles Lambert (BBL) was founded in 1861. A classical European bank, BBL has more than a thousand branches and conducts business worldwide through a network of correspondent banks. BBL offers one hundred twenty-five different financial services, and the number keeps growing. Computer networks at the Brussels, Belgium headquarters record more than three hundred million transactions a year — twenty-four hours a day, seven days a week — and they must not lose even one piece of data.

The Department of Organization and Data Processing manages the functions and facilities of the bank and shapes its technical operations, developing a highly evolutionary policy, reflected in a flexible, responsive data processing system.

BBL first automated accounts and securities in 1960 and became a Datapoint customer in 1972. BBL supports its vast range of financial activities through one EDP infrastructure based on multi-purpose network servers.

Datapoint networks, incorporating forty model 7950 servers, almost a thousand other processors, and thirty-six gigabytes of online storage, serve five thousand users. They support data capture from the small branches and connectivity with the Unisys mainframes, as well as office automation, PC integration, and other applications that require interactive treatment of complex operations. Security features integrated within Datapoint hardware and software systems are of special value to BBL as this solid institution meets the global challenges of the rapidly changing financial services market.

Roland Buffart *Director, Department of Organization and Data Processing*
Banque Bruxelles Lambert

"To serve our clients, we must have rapid and precise information. For example, we are able to receive status reports on clients' accounts from numerous correspondent banks all over the world and put this information at the disposal of our clients by 10 a.m. every day. This service, which is unique to BBL, would be impossible without our finely tuned worldwide information network.

"The European banking market today is highly competitive. Our biggest challenge is the fantastic, incredible multiplication of new financial services, which is apparently endless. Ten years ago, EDP simply assisted other divisions of the bank. Now, EDP must take a leading role, not only supporting existing services, but also developing applications for new ones. We must continually invent new products, support them with EDP systems, manage costs and charges, and meet higher and higher demands for productivity with systems that are more powerful, more flexible, consistently accurate, and absolutely complete.

"Datapoint fills a strategic place in the functioning of BBL, supporting the sixteen main branches and the central bank departments. All these employees need to have multi-purpose workstations — and behind them a very powerful operating system. With Datapoint we found this flexible solution, and we found ARCNET.

"ARCNET was an excellent creation of Datapoint and a fantastic choice for BBL because of its flexibility, its modularity, and, most of all, because it is easy to install and to use. With fifty-one networks — the largest having two hundred twenty processors — the ease of tuning the network is vastly important. This is a very positive factor for Datapoint. There is almost never a failure in an ARCNET. Whatever you do with it — even if you make mistakes — it always runs.

"More than ten years after its creation, ARCNET remains the best LAN in the world. It is so."

Roland Buffart

"When you computerize an automobile dealership like MOHAG, the software is the biggest decision. All the people have to be able to use it. Systems must be simple, and they must be integrated. The DARTS system is very flexible. You can choose some modules, add others later, and integrate custom programs easily. Best, it is designed especially for Ford dealers and their particular needs.

"Our network has nine processors and fifty terminals and extends to all our locations. We place orders and do other business with the main Ford offices by data communications. This really benefits our operations. For example, before, it would take six weeks to receive payment for warranty repairs. Now, we transmit an invoice, and the money is in hand fourteen days later. It saves four weeks in time and interest.

"One of our first uses of EDP was for parts inventory — more than thirty thousand different types of parts. Today, using DARTS programs which consider model mix and seasonal factors in the forecasts, our DM 2.4 million inventory turns over 4.2 times per year, and availability has approached 100 percent. That can only be achieved through EDP. The purpose of EDP is to relieve employees of routine tasks so they have more time to take care of customers. Our database of thirty-three thousand customers has information that helps us market to them and offer products they want.

"Now that the combination of DARTS software and Datapoint hardware has gradually proven itself, we are constantly eager to run new and even more complex applications on the computer. I am always pressing Datapoint for new solutions in connection with integrating our 'New Office Communications Services.' Our long range plans pose a challenge to the EDP manufacturer to deal with technologies such as UNIX and ISDN in developing new hardware and to support these within the DARTS software.

"Our goal is to provide service 'all around the car' — travel, recreation, financial services — everything to do with automobiles. And all will be done with EDP. We are building the people now to accomplish this. To be successful, people are the key."

Manfred Reddig

Motorwagen-Händelsgesellschaft mbH (MOHAG), headquartered in Recklinghausen, is the second largest Ford automobile dealer in Germany, with nine showrooms in seven cities. MOHAG was founded in 1927 and has been a Datapoint customer for twelve years through the Datapoint/Ford alliance known as DARTS. The DARTS software system, which was developed by Datapoint and runs on a variety of Datapoint hardware platforms, includes integrated modules for invoicing, parts ordering and inventory, direct order entry for vehicles, warranty, payroll, finance, and marketing. A DARTS system can grow as the dealership grows, because with the ARCNET network new hardware can be added as required.

MOHAG dealerships sell ten to fifteen new cars each day, in addition to fifteen to twenty used cars. Like automotive department stores, however, they also sell campers, caravans (RVs), selected U.S. Ford models not manufactured in Europe, accessories, camping gear, sports equipment, motor-sports apparel, and, of course, parts and maintenance. You can buy gasoline, lease a car, or purchase auto insurance at MOHAG.

"Ford makes wonderful cars; MOHAG makes wonderful better cars." At MOHAG Motorsport services, special-order tuning and body customizing create "one-of-a-kind" models sold in Europe, Brazil, and elsewhere. A special two-day course helps buyers drive their custom vehicles proficiently and safely. Enthusiastic about marketing, MOHAG sponsors such activities as youth soccer and bike rallies and has its own auto racing team. There are special events every month; for example, Spanish folk dancing helped introduce the new Fiesta model.

But, if "marketing" is MOHAG's middle name, "people" is their first, evidenced both by the individual acknowledgment Manfred Reddig gives each employee as he moves through the dealership and by the MOHAG philosophy of service to the customer.

Manfred Reddig — *Managing Director*
Motorwagen-Händelsgesellschaft mbH

Catapulting to the rank of leading European financial futures market in only three years, Marché à Terme International de France, MATIF, quickly established Paris as the third largest futures marketplace in the world, in terms of volume traded. When MATIF was formed in Paris in February 1986, the initial measure of its success was to trade 5,000 lots per day. MATIF quickly surpassed these projections, processing 2.5 million trades the first year, 13.5 the second, and 17.0 million — with a peak of 260,000 per day — during its third year of operation.

To launch the market, MATIF contracted with the International Commodities Clearing House (ICCH) to provide EDP services, borrowing from the London firm's experience with Datapoint systems to begin operations with minimal delay. Société Internationale de Compensation de Marchés (SICM) was formed and, last year, became a subsidiary of MATIF.

Processing all the trades each day, compiling results, and distributing them to clearing house members in time for the market to open the next morning, SICM runs three shifts per day. The company employs two interconnected Datapoint computer networks with eight identically configured 7950 multi-processors. The real-time and batch networks can stand in for one another, providing built-in redundancy. The development, test, and verification network is isolated from the production system.

More than two hundred terminals at members' offices and MATIF SA premises are connected to the SICM system through thirty 8600 processors, used as concentrators. A PABX system switches these leased lines. Systems professionals have developed special applications to ensure security and confidentiality of members' data, output on four twenty-page-per-minute Xerox laser printers, producing fifteen thousand printed pages per day, plus month-end reports. SICM archives all these images using its own optical disk software.

Roger Moslard — *Managing Director, Société Internationale de Compensation de Marchés*

"When MATIF began, it was not known if it would be a small exchange or if it would grow. So, starting with a small system that could expand made much sense. That is why Datapoint was chosen. MATIF has grown so fast, SICM has had to add capacity quickly. Datapoint has been able to react to our hardware requirements. As we plan for the future, we remember a basic principle in this business: when you have one peak, the next peak will be double the last.

"Our biggest constraints are volume, time, and confidentiality. We continually look for more ways to increase modularity, because it helps us deal with the fact that everybody does exactly the same thing at the same time on our systems. It is the nature of the business. For hardware and software, LANs enable us to have the modularity we require. The 7950 servers help us with volume and time. With multi-processors we can split many things, again increasing modularity. This improves security as well as response times, which are less than two or three seconds.

"A big challenge with futures and options is that each time a new contract is launched it does not work exactly the same as previous ones. So, we develop EDP support for each different contract, but we must also train the people at our members' offices to deal with new contracts readily from the first day on. Everyone on the team and every supporting system must be ready when a new contract is listed, so a long session of testing is conducted prior to any launch. The best solution to solve problems is to prevent problems.

"The demands of the industry require that all our people be close to one another — teamwork — and involved. The results of our work are easily seen. It is gratifying."

Roger Moslard

"One of Kommundata's product lines, called 'Sigma,' is based on Datapoint hardware and system software and includes a wide range of applications from Kommundata. We believe it is one of the market's most complete aids for support within the area of office information. Kommundata has now installed almost one hundred Sigma systems — a large percentage of our customer sites. When a customer has followed the twelve-week preparation schedule Kommundata provides, we can deliver, install, and have a new fifty-workstation Sigma system in production in only ten days — and it's no problem at all.

"ARCNET is important in its role as an open network system. In the '90s I think you will see more and more individual solutions from customer to customer. Therefore, our solutions at Kommundata must give the flexibility to meet specific customer needs. We reflect this in our philosophy to 'take another step nearer the customer.' "

Björn Nilsson

"One reason we chose Datapoint is communications excellence — everybody can talk to everyone everywhere, within the restrictions of security. And ARCNET is very stable; you can plug in and plug out, and it still runs. With ARCNET, we have real sharing of resources, including CPU power, which is not what you usually get. ARCNET doesn't restrict our choice of workstations. It's readily expandable, the price per workstation is competitive, and the integration possibilities are practically limitless. Datapoint is the Swiss army knife of computers.

"Datapoint gives us the flexibility to do what we want — MS-DOS, IBM and Unisys mainframes, Macintosh, X.400, UNIX, asynchronous, ORACLE — all in this one little wire, in the same network system, at the same time. Datapoint isn't the only vendor on the market, but it is probably the only one that can tie it all together.

"Sometimes I think I've got my hobby as my occupation or the other way 'round. It feels so rewarding, at the same time challenging, to see how people grow when they get good tools to work with."

Torben Svane

Kommundata was founded in 1965 to provide competitive EDP solutions for efficient community services. This was the result of an innovative decision by Swedish local authorities and county councils to create a company that combined EDP knowledge with experience in local government. Kommundata offers a complete package of services, including application software, consulting, education, hardware sales, and data center operations.

According to the Swedish model, a solution must have a balance between four elements: assignment (having appropriate resources distributed correctly), organization, technology, and the individual (end user). Kommundata believes that a distributed structure of local networks, nation-wide area networks, and regional data centers contributes to this balance in EDP.

Kommundata has been using Datapoint products for seventeen years. Nevertheless, in fiscal 1989, 38 percent of Datapoint's sales with Kommundata was new business. This success attests to the satisfaction of Kommundata's customers with its Datapoint products and services.

Varbergs kommun, a customer of Kommundata, is a township of fifty thousand people on the west coast of Sweden. Varberg has two interconnected networks driven by a Datapoint 7950 multi-processor, approximately two hundred workstations, ten miles of network wiring connecting eight buildings over six blocks, and telecommunications lines connecting multiple remote locations.

The goals and strategies for Varberg's EDP system are to keep costs down; make tasks simpler; coordinate information flow; and treat training and skills as investments, not costs. On the technical side, flexibility, modularity (for growth), multi-purpose workstations, and communications are the key elements.

At Varberg, computers do what they're best at — mechanical, repetitive tasks, calculating, and supplying and extracting information — so people can do what they're best at — dealing with other people and activities that require evaluation, judgment, and experience. The results include significant savings of time and other resources, improved productivity, and pride in the users' work and information environments.

Torben Svane — *MIS Director, Varbergs kommun*

Bjorn Nilsson — *Vice President, Kommundata AB*

As a leading multinational company operating in all corners of the globe, Texaco maintains and utilizes fully competitive technology including sophisticated information systems. Texaco uses Datapoint systems in such operations as producing, refining, chemical manufacturing, and marketing for local processing and for transmitting data to and from the Texaco mainframe financial reporting systems.

In selected operations of Texaco subsidiaries, divisions, and departments, the company is benefitting from the establishment of centralized system support. Texaco has installed model 7950 multi-processor systems at several sites in the U.S. and also uses 7800 dual-processor systems in two U.S. operations centers and one overseas location. The Datapoint systems and software which service these functions have met the exacting standards Texaco and Datapoint established for them.

Leland Chvatal

Manager, Distributed Systems
Information Technology Department
Texaco Inc.

"Our information systems must be flexible enough to accommodate rapid change without making our existing computer investments obsolete. We accomplish projects that make the other Texaco departments, who are our customers, happy with what they receive, while contributing to Texaco's bottom line. That's my biggest satisfaction."

Leland Chvatal

NETWORKING PEOPLE

Networking brings a dimension to computing solutions that is unequalled and unrivaled by other technologies. Built on the concepts of cooperation and sharing, networked computing systems meet the particular needs of individuals and workgroups, while providing the management, control, and resource protection required by the enterprise.

Recognizing these needs, Datapoint builds cost-effective network components and the sophisticated software that lets the network reach out and encompass a wealth of products and services from other vendors and public communications systems. These are among the characteristics that make Datapoint solutions responsive to our customers' demands. Flexible and easy to use, readily expanded to keep pace with growth and diversification — Datapoint network solutions are the choice of dynamic businesses and governments around the world.

Superior hardware and software are not enough, however. Datapoint adds the dimensions of expertise and experience. More importantly, Datapoint brings personal involvement, understanding, and commitment to each customer's solution. When you meet our customers, you'll understand why.

This year, seven of Datapoint's customers from the fields of financial services, government, distribution, and manufacturing — four especially significant markets for the Company — will tell our story. Datapoint has worked closely with each of these customers, crafting solutions that meet their unique needs. Our commitment shows.

THE FUTURE OF ARCNET

On September 12, 1989, at the NETWORLD trade show in Dallas, Texas, Datapoint Corporation, NCR Microelectronic Products Division, and Standard Microsystems Corporation announced the development of Datapoint's ARCNETplus™ local area network technology and celebrated the manufacture of the two-millionth ARCNET connection. Following are the comments of Michael M. Michigami, president and chief executive officer of Datapoint Corporation, at that announcement.

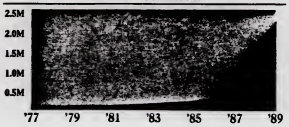
On behalf of everyone here with me, I'd like to welcome you to one occasion that is being used for two very special events: the celebration of the two-millionth ARCNET local area network connection and the announcement of ARCNETplus, a brand new ARCNET technology which we will tell you more about today.

I'm pleased to be at this event because I'm very proud of Datapoint's past success with ARCNET and very excited about the future promise of ARCNETplus. In case you're not aware, Datapoint has always been customer-oriented. It was founded in 1968 to market a video display terminal — the so-called "glass Teletype" — that would replace the standard, paper-fed Teletype machine and make data entry easier.

In 1977, Datapoint introduced the first commercially-available, multi-user computer system that was not based on a mainframe. It was known as the Attached Resource Computer Network — ARCNET for short. Datapoint began a revolution in the computer industry by creating the first local area network. This created not only a whole new approach to computing, but also an entirely new market for the computer industry.

According to industry sources, as of last year — 1988 — four million local area network connections, worth $3.6 billion, were installed worldwide. It's projected that by next year — 1990 — there will be a total of 10.4 million connections, worth $7.2 billion.

ARCNET Connections



Today, ARCNET has approximately one-third of the LAN market. With ARCNETplus, we are well positioned to continue growing our market share.

The past success of ARCNET is why I'm so excited about the future promise of ARCNETplus. You see, ARCNETplus, just as the name implies, is the ARCNET many of you have known for twelve years — plus a great deal more. I want to especially emphasize that ARCNETplus does not obsolete a single installed ARCNET connection. This is the direct result of feedback from our customers. ARCNET users wanted a network that retained all the advantages of ARCNET, enhanced by leading-edge twenty-megabit transmission technology.

ARCNETplus was designed to increase the value of every existing ARCNET network already in place by allowing for simultaneous network operation at two and a half megabits per second and twenty megabits per second.

I want to take this opportunity to acknowledge the very important role that both NCR and Standard Microsystems have played in the success of ARCNET and will play in the development of ARCNETplus. The technical partnership between us is a key part of the continuing evolution of the original ARCNET technology. Datapoint is proud to be the company that created ARCNET. But, we're especially proud to be part of the team that will bring you ARCNETplus, the next generation of network technology.

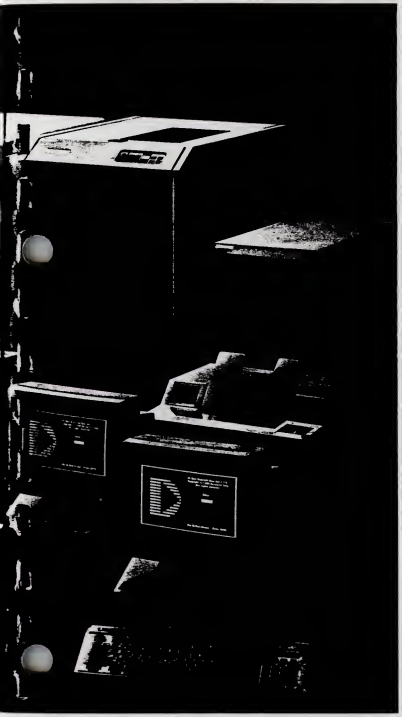
The computer industry has a unique characteristic. It is driven by its installed base. Therefore, in developing ARCNETplus, the first second-generation LAN, we knew that, to optimize its viability, this new technology had to build on the installed base of ARCNET, the first LAN.

Two million ARCNET connections have been shipped, and the growth rate of this installed base is rapidly approaching one million new connections per year. This milestone, which bodes well for the future of ARCNETplus, could not have been achieved had Datapoint kept ARCNET as a closed, proprietary technology. The emergence of ARCNET as a *de facto* standard in the industry is due as much to the efforts of NCR and Standard Microsystems as to the technical attributes of ARCNET itself.

As the first commercially-available LAN, ARCNET is the seed from which the industry segment represented here at the NETWORLD trade show has grown.

THE DATAPOINT FAMILY OF HARDWARE PRODUCTS

Datapoint's powerful local area network (LAN) servers include the dual-processor 7800 *(upper right)*, which can support two networks, and the Model 7950 *(upper center)*, which can support as many as six 80386 central processor units and twelve networks. These processors can support multiple operating system environments through the facilities of industry-standard software interfaces. The DATALAN/XA software product, for example, enables Datapoint workstations to execute industry-standard MS-DOS software. A range of storage options is available for both servers, including modular disk and disk/tape units in versatile storage cabinets *(to left and right of the 7950)* for large quantities of online data and fast, convenient backup facilities. The Datapoint 7352 Terminal *(upper center)* features high-performance windowing for existing customers.



The Datapoint DX™ Series of UNIX Servers and Workstations *(upper left)* includes models to support a broad range of capabilities. From the entry-level DX50™ through the mid-range DX400™ Server, these five versatile platforms support extensive networking and connectivity options and a wide variety of portable software products. The 9730 and 9731 UNIX Terminals offer the options of color or monochrome display and attach directly to the DX-Series Processors.

The Datapoint 2001 MINX™ Visual Communications Workstation and its associated keypad *(lower left)* are the desktop components of a MINX network. The Model 2009 MINX Network Interface *(below workstation)* permits the integration of off-the-shelf audio/video components into a video-teleconferencing network. It also enables the integration of video-conferencing rooms and rollabout carts.

ARCNET® (Attached Resource Computer®)component products *(lower center)* include:

- the ARCLINK™, Model 0870, with which you can use dial-up or leased lines to interconnect remote ARCNET networks on a point-to-point basis;
- the Model 9848 Modular Enclosure, for ARCNET hub and point-of-use adapter (POUA) network connections, which provides space for as many as forty ARCNET hub ports, eighteen POUA ports which can drive 1,000 feet of cable each, or combinations of the two;
- an external POUA, which is available in two models to connect either EIA-232 devices or parallel printers directly to an ARCNET cable, via the ARC® Virtual Circuit Services (VCS) input/output technology; and
- the Intelligent Hub, which operates in association with the Datapoint Local ARCNET Network Management (LANMAN™) system to provide network monitoring and control capabilities.

Datapoint's workstation line *(center to lower right)* offers a wide selection of diskless configurations. The file-entry workstation, configured with diskette drives, provides a manageable facility for import and export of data. The 7235 *(center)*, shown with optional color monitor, displays a screen from a VISTA-IMAGE™ Services application.

The 7420 Laser Printer *(center right)* is a convenient desktop printer with features to support a busy office.

INPUT®

Parsippany Place Corporate Center, Suite 201, 959 Route 46 East, Parsippany, NJ 07054-3492 (201) 299-6999

CONFIDENTIAL

VIA FEDERAL EXPRESS

May 1, 1990

Mr. Sterling Williams
STERLING SOFTWARE
8080 North Central Expressway
Suite 1100
Dallas, TX 75206

Dear Sterling:

This will confirm our verbal agreement for INPUT to perform an assessment of the value of Datapoint and Intelogic Trace, as going concerns as well as the value of their principal components. Our objective in this initial assessment will be to provide a realistic range of value with supporting analysis.

We will combine publicly available information with INPUT's knowledge of the companies (especially Intelogic Trace) and our knowledge of products and markets.

It is my understanding that if you receive material from First Boston you will make it available to us after appropriate non-disclosure has been signed by us. (FYI: Apparently, Kidder Peabody may have prepared material on Datapoint a few months ago; however, we are not following up on that at this time.)

We are targeting having the initial assessment to you within two weeks. Our fee for the work will not exceed $15,000.

(Please signify your acceptance by signing below.)

Sincerely,

Thomas O'Flaherty
Vice President

cc: Peter A. Cunningham

ACCEPTED:

Sterling Williams

		US	Other	Svc	HW		
HW/Sw	186			20	153	173	Comp
SUC	90		90	17	33	50	Telecom
	276			37	186	223	

33 HW
17 Svc??

royalty??	36	Leases, Consum, SB
Tot	312	
lease	9.2	7.0
SB	15.3	18.5
Consum	12	7.0
	36.5	32.5

46% Assembly
=140
(70 rev)

224